



PrairieSky Royalty Ltd.

Management's Discussion and Analysis

For the three and six months ended June 30, 2017

## Management's Discussion and Analysis

*This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 and 2016 ("interim condensed consolidated financial statements") and the audited consolidated financial statements and related notes as at and for the years ended December 31, 2016 and 2015. This MD&A has been prepared as of July 24, 2017.*

*The unaudited interim condensed consolidated financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). PrairieSky receives royalty income on production; as such, the production volumes are equivalent on a gross and net basis.*

*Certain measures in this document do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. Non-GAAP measures are commonly used in the oil and gas industry and by PrairieSky to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to conduct its business. Non-GAAP measures include Operating Netback, Operating Netback per BOE and Funds from Operations per Share, basic and diluted. Further information can be found in the Non-GAAP Measures section of this MD&A.*

*The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbls/d"), barrel of oil equivalent ("BOE") per day ("BOE/d"), thousand cubic feet ("Mcf"), and million cubic feet ("MMcf") per day ("MMcf/d"). BOE is an industry measurement to summarize the amount of energy equivalent found in a barrel of crude oil. See the discussion on energy conversions in the Advisory section of this MD&A for further explanation.*

***Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, natural gas, oil and natural gas liquids ("NGL") conversions, currency and references to PrairieSky.***

## FINANCIAL AND OPERATIONAL RESULTS

(\$ millions, except per share or as otherwise noted)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
<b>FINANCIAL</b>				
Revenues	\$ 102.2	\$ 48.1	\$ 182.5	\$ 97.0
Funds from Operations	75.0	42.8	142.3	84.2
Per Share – basic and diluted <sup>(1)(4)</sup>	0.32	0.19	0.60	0.37
Net Earnings (Loss) and Comprehensive Income (Loss)	40.5	(5.7)	61.3	(4.0)
Per Share – basic and diluted <sup>(1)</sup>	0.17	(0.02)	0.26	(0.02)
Dividends declared <sup>(2)</sup>	44.5	41.2	87.7	104.5
Per Share	0.1875	0.1800	0.3700	0.4567
Acquisitions, including non-cash consideration	24.9	24.9	279.4	27.6
Working Capital at period end	108.0	171.1	108.0	171.1
Shares outstanding (millions)				
Shares outstanding at period end	236.6	228.8	236.6	228.8
Weighted average - basic	236.8	228.9	236.7	228.8
Weighted average - diluted	237.1	229.1	237.0	229.0
<b>OPERATIONAL</b>				
<b>Royalty Production Volumes</b>				
Natural Gas (MMcf/d)	80.6	75.3	81.1	73.0
Crude Oil (bbls/d)	9,609	8,213	9,910	8,480
NGL (bbls/d)	2,664	2,395	2,830	2,473
Royalty Production (BOE/d) <sup>(3)</sup>	25,706	23,158	26,257	23,120
<b>Realized Pricing</b>				
Natural Gas (\$/Mcf)	2.15	0.67	2.20	1.22
Crude Oil (\$/bbl)	52.98	45.01	52.89	39.41
NGL (\$/bbl)	28.60	22.79	29.83	20.88
Total (\$/BOE) <sup>(3)</sup>	29.51	20.50	29.99	20.53
<b>Operating Netback per BOE <sup>(4)</sup></b>	<b>\$ 25.28</b>	<b>\$ 17.18</b>	<b>\$ 26.22</b>	<b>\$ 16.41</b>
<b>Funds from Operations per BOE</b>	<b>\$ 32.06</b>	<b>\$ 20.31</b>	<b>\$ 29.94</b>	<b>\$ 20.01</b>
<b>Natural Gas Price Benchmarks</b>				
AECO (\$/Mcf)	2.77	1.25	2.86	1.67
Foreign Exchange Rate (US\$/CAD\$)	0.7437	0.7761	0.7499	0.7518
<b>Oil Price Benchmarks</b>				
West Texas Intermediate (WTI) (US\$/bbl)	50.27	45.64	51.03	38.99
Edmonton Light Sweet (\$/bbl)	64.81	55.00	64.55	48.59

<sup>(1)</sup> Net Earnings (Loss) and Comprehensive Income (Loss) and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.

<sup>(2)</sup> A dividend of \$0.0625 per common share was declared on June 15, 2017. The dividend was paid on July 17, 2017 to shareholders of record as at June 30, 2017.

<sup>(3)</sup> See "Conversions of Natural Gas to BOE".

<sup>(4)</sup> Funds from Operations per Share and Operating Netback per BOE are defined under the Non-GAAP Measures section in this MD&A.

## RESULTS OVERVIEW

### HIGHLIGHTS

During the three-month period ended June 30, 2017 (“Q2 2017”), PrairieSky reported:

- Revenues totaled \$102.2 million, consisting of \$69.0 million of royalty revenue, \$3.6 million of lease rental income, \$29.5 million of bonus consideration and \$0.1 million of other income.
- Funds from operations totaled \$75.0 million (\$0.32 per share - basic and diluted).
- Royalty production averaged 25,706 BOE per day consisting of average crude oil production volumes of 9,609 bbls per day, average NGL production volumes of 2,664 bbls per day and average natural gas production volumes of 80.6 MMcf per day.
- Purchased for cancellation 397,200 common shares at a weighted average price of \$29.07 per common share for total consideration of \$11.6 million under the normal course issuer bid (“NCIB”).
- Cash and cash equivalents of \$96.9 million and positive working capital of \$108.0 million at June 30, 2017.

During the six-month period ended June 30, 2017 (“YTD 2017”), PrairieSky reported:

- Revenues totaled \$182.5 million, consisting of \$142.5 million of royalty revenue, \$6.1 million of lease rental income, \$32.5 million of bonus consideration and \$1.4 million of other income.
- Funds from operations totaled \$142.3 million (\$0.60 per share - basic and diluted).
- Royalty production averaged 26,257 BOE per day consisting of average crude oil production volumes of 9,910 bbls per day, average NGL production volumes of 2,830 bbls per day and average natural gas production volumes of 81.1 MMcf per day.
- Purchased for cancellation 732,400 common shares at a weighted average price of \$29.59 per common share for total consideration of \$21.7 million under the NCIB.
- Completion of the acquisition of a 4% gross overriding royalty on current and future phases of the Lindbergh SAGD thermal oil project, as well as seismic over certain lands in British Columbia and Alberta, for total cash consideration of \$250 million (the “Lindbergh Acquisition”), before customary closing adjustments.
- Completion of a bought deal prospectus offering of 9.2 million common shares, including 1.2 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters at a price of \$31.40 per common share for aggregate gross proceeds of \$288.9 million and net proceeds, after fees and expenses, of \$276.9 million.

## BUSINESS OVERVIEW

### PRAIRIESKY ROYALTY

PrairieSky’s asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 7.8 million acres with petroleum and/or natural gas rights, an additional 1.1 million acres in coal only titles, and approximately 6.5 million acres of GORR Lands (as defined herein) and other acreage (collectively, the “Royalty Properties”).

The Royalty Properties are comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas, NGL and certain other minerals located predominantly in central and southern Alberta and western Saskatchewan (the “Fee Lands”); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands (“Lessor Interests”); and (iii) overriding royalty interests (“GORR Interests”) on lands (“GORR Lands”) across Western Canada.

PrairieSky is focused on encouraging third parties to actively develop the Royalty Properties, while strategically seeking additional petroleum and natural gas royalty assets that provide PrairieSky with medium-term to long-term value enhancement potential. The Company does not directly conduct operations to explore for, develop or produce petroleum or natural gas; rather, third party development of the Royalty Properties provides the Company with royalty revenues as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of Alberta, Saskatchewan, Manitoba and British Columbia.

PrairieSky's operations include royalty income earned through crude oil, NGL and natural gas produced on the Royalty Properties. The Company's royalty revenues are derived from: (i) the Lessor Interests that are leased out by the Company and upon which lessees pay lessor royalties; and (ii) GORR Interests on GORR Lands leased by third parties.

PrairieSky receives royalty revenue from approximately 36,000 wells and receives payments from approximately 345 different industry payors. The Company receives approximately 72% of its monthly revenue from 25 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate for YTD 2017 was approximately 6.1%. Some royalty agreements allow for the deduction of certain costs.

Petroleum and natural gas royalty structures are typically linked directly to production volumes, with certain royalty structures linked to production volumes and price. As a result, the Company's net earnings can be significantly impacted by fluctuations in commodity prices and production volumes. Production volumes can be influenced by various factors, including the extent of exploration and development activity by third parties on the Royalty Properties, the timing and amount of capital expenditures, and the expertise and financial resources of third party lessees. Commodity pricing is influenced by market supply and demand as well as other factors such as weather, quality of product, access to markets, foreign currency fluctuations, and geopolitical risk. The Company is able to mitigate some of these risks to the extent that there are a multitude of third parties actively exploring and developing the Royalty Properties and the production of natural gas, crude oil, and NGL is diversified.

As a royalty owner, PrairieSky does not bear the operational risks typically associated with the upstream oil and natural gas exploration and production business. The Company is not responsible for site restoration and abandonment costs. The Company does not bear the operational or financial risks of drilling, completing or operating wells and related infrastructure. These costs are the responsibility of the third parties conducting operations on the Royalty Properties. Substantially all of the capital expenditures made by PrairieSky are discretionary.

Costs incurred by the Company are primarily production and mineral taxes, lease administration expenses and current income taxes. Lease administration expenses include such items as land title management, contract administration, technical evaluation, negotiations and compliance costs to secure both mineral rights and ensure accurate royalty revenue receipts.

Management's discussion and analysis for this reporting period focuses on the three and six months ended June 30, 2017.

## **PRAIRIESKY'S 2017 OUTLOOK**

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The economic environment remains challenged with continued low commodity prices, limited access to capital for many industry participants, and changes to legislative and regulatory frameworks in the jurisdictions in which the Company carries on business, including but not limited to changes to the royalty framework in Alberta, taxes, tariffs, or limits related to carbon emissions, and increased corporate tax rates. Management continues to deploy its risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, paying close attention to administrative costs and a disciplined approach to acquisitions. PrairieSky maintains a strong balance sheet and continues to employ a

conservative capital structure and monitors its controllable costs. As at June 30, 2017, PrairieSky had positive working capital of \$108.0 million with \$96.9 million in cash.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third party guidance for anticipated capital expenditures during 2017 and beyond. Given PrairieSky has no operational control over capital expenditures on its lands, it is difficult to predict activity levels and the timing thereof with a high degree of certainty.

PrairieSky receives royalty revenue from approximately 36,000 wells and receives payments from approximately 345 different industry payors. This diversity, along with an active royalty compliance program, assists in reducing collection and credit risk. The Company takes certain royalty volumes in kind which, in conjunction with the above processes, further assists in managing collection and credit risk.

## PRAIRIESKY'S STRATEGY

The Company's objective is to generate significant cash flow and growth for shareholders through indirect oil and gas investment at relatively low risk and low cost to the Company. The Company seeks to achieve this objective by: (i) focusing on organic growth of royalty revenue from the Royalty Properties; (ii) proactively monitoring and managing the portfolio of Royalty Properties to ensure third party adherence to lease terms and contractual provisions (including offset well obligations); and (iii) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. The Company intends to distribute the majority of cash flow in the form of dividends and share cancellations over time.

## ROYALTY PRODUCTION

### ROYALTY PRODUCTION VOLUMES

(Average daily)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Natural Gas (MMcf/d)	80.6	75.3	81.1	73.0
Crude Oil (bbls/d)	9,609	8,213	9,910	8,480
NGL (bbls/d)	2,664	2,395	2,830	2,473
Total Royalty Production (BOE/d)	25,706	23,158	26,257	23,120

PrairieSky's average daily royalty production volumes for Q2 2017 were 38% oil, 10% NGL and 52% natural gas as compared to Q2 2016 when the royalty production volume split was 35% oil, 10% NGL and 55% natural gas. The average daily royalty production volume split for YTD 2017 was 38% oil, 11% NGL and 51% natural gas as compared to YTD 2016 when the average daily royalty production volume split was 37% oil, 11% NGL and 52% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this delay, PrairieSky's royalty production volumes and revenue include both positive and negative adjustments related to prior periods. In addition, collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to prior periods.

#### For the three months ended June 30, 2017

Natural gas production volumes for Q2 2017 of 80.6 MMcf per day were 7% higher than the 75.3 MMcf per day reported in Q2 2016 due to the impact of production additions from new drilling on the Royalty Properties and acquisitions more than offsetting natural declines.

Crude oil production volumes for Q2 2017 of 9,609 bbls per day were 17% higher than the 8,213 bbls per day reported in Q2 2016 due to the impact of production additions from new drilling on the Royalty Properties, and a full quarter of production related to the acquisition of a 3.95% GORR Interest on a heavy and thermal oil project at Onion Lake, Saskatchewan (the "Onion Lake Acquisition") during Q4 2016 and

acquired production from the Lindbergh Acquisition in Q1 2017. Royalty production volumes from new drilling on the Royalty Properties and acquisitions outweighed natural declines.

NGL production volumes for Q2 2017 of 2,664 bbls per day have increased 11% from 2,395 bbls per day reported in Q2 2016. The increase in NGL volumes quarter over quarter is due to incremental volumes from new wells on stream more than offsetting natural declines.

#### For the six months ended June 30, 2017

Natural gas production volumes for YTD 2017 of 81.1 MMcf per day were 11% higher than the 73.0 MMcf per day reported in the six-month period ended June 30, 2016 ("YTD 2016") primarily from royalty production volumes from new drilling and acquired production more than offsetting natural declines. Natural gas production volumes have also been impacted by positive volume adjustments from prior periods, the majority of which related to compliance activities.

Crude oil production volumes for YTD 2017 of 9,910 bbls per day were 17% higher than the 8,480 bbls per day reported in YTD 2016 due to the impact of acquired royalty production volumes, royalty production volumes from incremental drilling and pricing on sliding scale royalties more than offsetting natural declines. Crude oil production volumes have also been impacted by positive volume adjustments from prior periods.

NGL production volumes for YTD 2017 of 2,830 bbls per day have increased 14% from 2,473 bbls per day reported in YTD 2016. The increase in NGL volumes period over period is due to incremental royalty production volumes from new wells on stream outweighing the impact of natural declines.

PrairieSky's crude oil, NGL and natural gas production volumes are primarily marketed with lessees' production; therefore, PrairieSky is exposed to commodity price volatility. The Company actively reviews its counterparties and takes certain royalty volumes in kind to mitigate credit risk, as appropriate. The Company has no commodity price hedges in place and does not currently intend to enter into any commodity price hedges.

PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain.

## FINANCIAL RESULTS

### OPERATING RESULTS

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	(\$ millions)	(\$/BOE)	(\$ millions)	(\$/BOE)
Royalty Revenue	\$ 69.0	\$ 29.51	\$ 43.2	\$ 20.50
Administrative Expenses	(9.6)	(4.10)	(6.1)	(2.89)
Production and Mineral Taxes	(0.3)	(0.13)	(0.9)	(0.43)
<b>Operating Netback<sup>(1)</sup></b>	<b>\$ 59.1</b>	<b>\$ 25.28</b>	<b>\$ 36.2</b>	<b>\$ 17.18</b>

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	(\$ millions)	(\$/BOE)	(\$ millions)	(\$/BOE)
Royalty Revenue	\$ 142.5	\$ 29.99	\$ 86.4	\$ 20.53
Administrative Expenses	(15.2)	(3.20)	(15.3)	(3.64)
Production and mineral taxes	(2.7)	(0.57)	(2.0)	(0.48)
<b>Operating Netback<sup>(1)</sup></b>	<b>\$ 124.6</b>	<b>\$ 26.22</b>	<b>\$ 69.1</b>	<b>\$ 16.41</b>

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Royalty Production (BOE/d) <sup>(2)</sup>	<b>25,706</b>	23,158	<b>26,257</b>	23,120

<sup>(1)</sup> Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.

<sup>(2)</sup> See "Conversions of Natural Gas to BOE".

## REVENUES

Royalty Revenue by Product (\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Natural Gas	\$ 15.7	\$ 4.6	\$ 32.3	\$ 16.2
Crude Oil	46.3	33.6	94.9	60.8
NGL	7.0	5.0	15.3	9.4
	<b>69.0</b>	43.2	<b>142.5</b>	86.4
<b>Other Revenue</b> (\$ millions)				
Lease Rental Income	\$ 3.6	\$ 1.9	\$ 6.1	\$ 5.1
Bonus Consideration	29.5	2.6	32.5	4.4
Other Income	0.1	0.4	1.4	1.1
	<b>33.2</b>	4.9	<b>40.0</b>	10.6
<b>Total Revenues</b>	<b>\$ 102.2</b>	\$ 48.1	<b>\$ 182.5</b>	\$ 97.0

Revenues by Classification (\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Fee Lands	\$ 50.9	\$ 35.5	\$ 107.0	\$ 70.1
GORR Interests	18.1	7.7	35.5	16.3
Royalty Revenue	69.0	43.2	142.5	86.4
Other Revenue	33.2	4.9	40.0	10.6
<b>Total Revenue</b>	<b>\$ 102.2</b>	\$ 48.1	<b>\$ 182.5</b>	\$ 97.0

The Company's average royalty rate for Q2 2017 and YTD 2017 was approximately 6.1%. The corporate average royalty rate decreased marginally from 6.2% in Q4 2016 due to the effect of both the Lindbergh Acquisition and the Onion Lake Acquisition. During the three months ended June 30, 2017, royalty revenue was \$69.0 million compared to \$43.2 million for the same three-month period in 2016. Q2 2017 royalty revenue increased by 60% compared to Q2 2016 due to a combination of increased production volumes and an improvement in commodity pricing resulting in an increase to the average realized price during the period.

During Q2 2017, revenue from Lessor Interests was \$50.9 million, or 74%, of total royalty revenue. Revenue from GORR Interests was \$18.1 million, or 26%, of total royalty revenue for the same period. In the comparative periods, \$35.5 million (82%) and \$7.7 million (18%) of royalty revenue were generated from Lessor Interests and GORR Interests, respectively. The increase in revenue generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of revenues from the Lindbergh and Onion Lake Acquisitions, as well as new drilling on GORR Lands.

YTD 2017, revenues from the Lessor Interests were \$107.0 million, or 75%, of total royalty revenues. Revenues from GORR Interests were \$35.5 million, or 25%, of total royalty revenues for the same time period. In the comparative periods, \$70.1 million (81%) and \$16.3 million (19%), respectively, of royalty revenues were generated from Lessor Interests and GORR Interests. The increase in revenues generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of the two acquisitions noted above as well as new drilling on GORR Lands.



During Q2 2017, the Company averaged realized crude oil prices of \$52.98 per bbl, NGL prices of \$28.60 per bbl and natural gas prices of \$2.15 per Mcf. Prices for all products increased from Q2 2016 when the Company averaged realized crude oil prices of \$45.01 per bbl, NGL prices of \$22.79 per bbl and natural gas prices of \$0.67 per Mcf due to improvements in benchmark pricing for all commodities between Q2 2016 and Q2 2017. YTD 2017, the Company averaged realized crude oil prices of \$52.89 per bbl, NGL prices of \$29.83 per bbl and natural gas prices of \$2.20 per Mcf. Prices for all products increased from YTD 2016 when the Company averaged realized crude oil prices of \$39.41 per bbl, NGL prices of \$20.88 per bbl and natural gas prices of \$1.22 per Mcf.

Royalty compliance recoveries are the cash payments received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. Cash received from compliance recoveries can cover a number of periods. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the consolidated financial statements until collection is certain. For the three and six month periods ended June 30, 2017, the Company collected \$1.3 million and \$3.3 million, respectively, in compliance recoveries. Compliance recoveries are included in royalty revenue for the period.

Other revenue consisted primarily of lease rental income from leases that are currently issued in respect of certain Fee Lands and lease bonus consideration. Bonus consideration revenue for Q2 2017 and YTD 2017 was \$29.5 million (Q2 2016 - \$2.6 million) and \$32.5 million (YTD 2016 - \$4.4 million), respectively. Bonus consideration was earned upon the issuance of new leases during the period as well as an amendment to an existing leasing arrangement. Of the \$29.5 million earned in the quarter, \$14.3 million was cash. The \$15.2 million non-cash consideration provided PrairieSky with gross overriding royalty interests on both developed and undeveloped lands as well as additional complementary seismic data. Both the amount and timing of bonus consideration revenue can vary significantly as it relates to the unique circumstances of each transaction.

## ADMINISTRATIVE EXPENSES

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Salaries and Benefits	\$ 3.3	\$ 3.4	\$ 7.0	\$ 7.7
Share-Based Compensation	5.1	0.8	4.9	3.4
Office Expense	0.6	1.3	1.5	2.6
Public Company Expense	0.2	0.1	1.0	0.6
Information Technology and Other	0.4	0.5	0.8	1.0
<b>Total Administrative Expenses</b>	<b>\$ 9.6</b>	<b>\$ 6.1</b>	<b>\$ 15.2</b>	<b>\$ 15.3</b>

	Three months ended June 30, 2017		Three months ended June 30, 2016	
	(\$ millions)	(\$/BOE) <sup>(1)</sup>	(\$ millions)	(\$/BOE) <sup>(1)</sup>
Administrative – cash	\$ 8.7	\$ 3.72	\$ 5.8	\$ 2.75
Administrative – non-cash	0.9	0.38	0.3	0.14
<b>Total Administrative Expenses</b>	<b>\$ 9.6</b>	<b>\$ 4.10</b>	<b>\$ 6.1</b>	<b>\$ 2.89</b>

<sup>(1)</sup> See "Conversions of Natural Gas to BOE"

	Six months ended June 30, 2017		Six months ended June 30, 2016	
	(\$ millions)	(\$/BOE) <sup>(1)</sup>	(\$ millions)	(\$/BOE) <sup>(1)</sup>
Administrative – cash	\$ 16.7	\$ 3.51	\$ 13.6	\$ 3.23
Administrative – non-cash	(1.5)	(0.31)	1.7	0.40
<b>Total Administrative Expenses</b>	<b>\$ 15.2</b>	<b>\$ 3.20</b>	<b>\$ 15.3</b>	<b>\$ 3.64</b>

<sup>(1)</sup> See "Conversions of Natural Gas to BOE"

PrairieSky is committed to cost control in its business. Administrative expenses for Q2 2017 and YTD 2017 were \$4.10 per BOE (Q2 2016 - \$2.89 per BOE) and \$3.20 per BOE (YTD 2016 - \$3.64 per BOE), respectively. Salaries and share-based compensation costs for YTD 2016 included \$1.3 million related to severance costs. Administrative expenses include both cash and non-cash administrative expense which

relate to share-based compensation plans. Non-cash administrative expenses are impacted by the closing share price at period end and as such, are subject to variability.

Of the total \$5.1 million share-based compensation expense for Q2 2017, \$0.5 million of expense (Q2 2016 - \$0.3 million) related to the stock option plan and there was \$4.5 million of expense (Q2 2016 - \$0.6 million expense) related to the restricted share unit (“RSU”) and performance share unit (“PSU”) plans. The Company recorded \$0.1 million of expense (Q2 2016 - recovery of \$0.1 million) related to the Company’s Deferred Share Unit (“DSU”) plan. Three of the four independent Directors elected to receive all or a portion of annual Board of Directors (“Board”) and Committee retainers and fees in the form of DSUs.

Of the total \$4.9 million share-based compensation expense for YTD 2017, \$0.9 million (YTD 2016 - \$0.6 million) related to the stock option plan and there was \$3.5 million of expense (YTD 2016 - \$2.0 million) related to the RSU and PSU plans. The Company recorded \$0.5 million (YTD 2016 - \$0.8 million) related to the Company’s DSU plan.

The Company paid out \$4.2 million related to share-based compensation during Q2 2017 (Q2 2016 - \$0.5 million) and \$6.4 million during YTD 2017 (YTD 2016 - \$1.7 million). This amount is recorded as a reduction to non-cash share-based compensation and an increase to cash share-based compensation in the period the payment is made. Cash payments increased in 2017 due to the three year cliff vesting of awards granted at the time of the Company’s Initial Public Offering in May 2014. Share-based compensation vests during the first half of the year and, as a result, PrairieSky expects cash administrative expenses to be lower in the second half of 2017.

Share-based compensation expense increased in Q2 2017 and YTD 2017 as a result of the grant of 259,120 stock options, 114,736 PSUs, 50,608 RSUs and 21,698 DSUs at the beginning of 2017 related to the Company’s 2017 annual compensation cycle for directors, officers and employees. Total outstanding units and options from all employee incentive plans is less than 1% of total common shares outstanding at June 30, 2017.

## PRODUCTION AND MINERAL TAXES

(\$ millions, except per BOE amounts)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Production and mineral taxes	\$ 0.3	\$ 0.9	\$ 2.7	\$ 2.0
\$/BOE	\$ 0.13	\$ 0.43	\$ 0.57	\$ 0.48

Production and mineral taxes are levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. For Q2 2017, production and mineral taxes, which includes Alberta freehold mineral tax and Saskatchewan acreage tax, averaged less than 1.0% of royalty revenues compared to approximately 2.0% in the comparable 2016 period. Saskatchewan acreage tax does not vary with pricing while Alberta freehold mineral taxes are impacted by both production estimates and pricing. As a result, production and mineral taxes as a percentage of royalty revenues were lower in the quarter and YTD. YTD 2017, production and mineral taxes averaged 1.9% of royalty revenues, compared to 2.3% for YTD 2016.

## DEPLETION, DEPRECIATION AND AMORTIZATION (“DD&A”)

(\$ millions, except per BOE amounts)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Depletion, Depreciation and Amortization	\$ 43.5	\$ 40.8	\$ 88.5	\$ 81.7
\$/BOE	\$ 18.60	\$ 19.36	\$ 18.62	\$ 19.42

The Company depletes its royalty assets using the unit-of-production method based on the total proved and probable reserves of its Royalty Properties. Corporate assets are depreciated on a straight-line basis. DD&A per BOE is lower in Q2 2017 and YTD 2017 than the prior year comparative periods due to a lower depletable base offset by higher production volumes. DD&A per BOE will fluctuate depending on the amount and type of acquired capital, if any, the amount of reserves added and production volumes.

## EXPLORATION AND EVALUATION EXPENSE (“E&E”)

(\$ millions, except per BOE amounts)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Exploration and Evaluation Expense	\$ 3.1	\$ 1.5	\$ 4.0	\$ 2.8
\$/BOE	\$ 1.33	\$ 0.71	\$ 0.84	\$ 0.67

During Q2 2017 and YTD 2017, \$3.1 million (Q2 2016 - \$1.5 million) and \$4.0 million (YTD 2016 - \$2.8 million) of costs associated with expired Crown mineral leases and gross overriding royalties were recognized as an expense. The expense will vary period to period as a result of the timing of lease expiries, if any.

## FINANCE

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Finance Income	\$ (0.2)	\$ (0.6)	\$ (0.5)	\$ (1.2)
Finance Expense	0.1	0.1	0.1	0.2
Net Finance Items	\$ (0.1)	\$ (0.5)	\$ (0.4)	\$ (1.0)

Finance income includes interest on funds on deposit, short term investments and the royalty note receivable. Finance expense includes credit facility set-up and stand-by fees. Finance expense in Q2 2017 was consistent with Q2 2016. YTD 2017 finance expense decreased from YTD 2016 due to the reduced standby fees as a result of the voluntary reduction to the Credit Facility completed in Q2 2016. Finance income decreased 67% from Q2 2016 to Q2 2017 and 58% from YTD 2016 to YTD 2017, as a result of acquisitions completed during 2016 for cash consideration which lowered the cash balance on deposit compared to Q2 2016.

## INCOME TAX

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Current Tax Expense	\$ 4.0	\$ -	\$ 7.9	\$ -
Deferred Tax Expense	1.3	5.0	3.3	0.2
Income Tax Expense	\$ 5.3	\$ 5.0	\$ 11.2	\$ 0.2

The Company’s interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before tax. The Company’s effective tax rate differs from the Canadian statutory tax rate of 27% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses.

## NET EARNINGS

Net earnings for Q2 2017 and YTD 2017 were \$40.5 million (\$0.17 per share, basic and diluted) and \$61.3 million (\$0.26 per share, basic and diluted), respectively, compared to a net loss of \$5.7 million for Q2 2016 (\$0.02 loss per share, basic and diluted) and a net loss of \$4.0 million for YTD 2016 (\$0.02 loss per share,

basic and diluted). Net earnings increased by \$46.2 million during Q2 2017 compared to Q2 2016 as a result of increased royalty revenues and bonus consideration offsetting higher depletion costs and administrative expenses for the quarter. Year to date, net earnings increased by \$65.3 million compared to YTD 2016 due to significantly higher royalty revenues and bonus consideration offsetting higher depletion and income tax expenses.

## ACQUISITIONS

During Q2 2017, the Company completed acquisitions with an aggregate cost of \$24.9 million (Q2 2016 - \$24.9 million) comprised of royalty assets of \$1.0 million (Q2 2016 - \$20.5 million) and E&E assets, consisting of royalty interests and undeveloped land and seismic assets, of \$23.9 million (Q2 2016 - \$4.4 million). Of the \$24.9 million of acquisitions in the quarter, \$9.7 million was funded with cash. The \$15.2 million of non-cash bonus consideration is recorded as an acquisition and provided PrairieSky with gross overriding royalty interests on both developed and undeveloped lands as well as additional complementary seismic data.

YTD 2017, the Company completed acquisitions with an aggregate cost of \$279.4 million (YTD 2016 - \$27.6 million) comprised of royalty assets of \$35.9 million (YTD 2016 - \$21.9 million) and E&E assets of \$243.5 million (YTD 2016 - \$5.7 million). The YTD 2017 acquisitions included the Lindbergh Acquisition for \$250 million, before customary closing adjustments, whereby the Company acquired a 4% gross overriding royalty on current and future phases of the Lindbergh SAGD thermal oil project, as well as seismic over certain lands in British Columbia and Alberta. The \$15.0 million deposit paid in December 2016 was applied to the purchase price. In addition, the Company acquired Fee Lands and GORR Interests for cash consideration of \$12.7 million, \$15.2 million GORRs and seismic in lieu of bonus consideration and a non-producing GORR in exchange for the issuance of 53,616 common shares valued at \$1.6 million.

## LIQUIDITY AND CAPITAL RESOURCES

(\$ millions)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Net Cash From (Used In)				
Operating Activities	\$ 70.3	\$ 34.4	\$ 142.1	\$ 78.0
Investing Activities	(9.7)	(20.2)	(247.8)	(13.7)
Financing Activities	(56.1)	(47.2)	168.6	(105.4)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>4.5</b>	<b>(33.0)</b>	<b>62.9</b>	<b>(41.1)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>92.4</b>	<b>182.7</b>	<b>34.0</b>	<b>190.8</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 96.9</b>	<b>\$ 149.7</b>	<b>\$ 96.9</b>	<b>\$ 149.7</b>

## OPERATING ACTIVITIES

Net cash from operating activities for Q2 2017 was \$70.3 million compared to \$34.4 million for the comparable period in 2016 as a result of higher royalty revenues from increased royalty production volumes and improved commodity prices as well as higher bonus consideration. The net change in non-cash working capital for Q2 2017 was a decrease of \$4.7 million (Q2 2016 - decrease of \$8.4 million). Q2 2017 cash from operating activities was reduced by \$15.2 million of non-monetary bonus consideration related to an amended leasing arrangement.

Net cash from operating activities for YTD 2017 was \$142.1 million compared to \$78.0 million for the comparable period in 2016 as a result of higher royalty revenues from increased royalty production volumes and improved commodity prices and higher bonus consideration. YTD 2017 cash from operating activities was reduced by \$15.2 million of non-monetary bonus consideration. The net change in non-cash working capital for YTD 2017 was a decrease of \$0.2 million (YTD 2016 - decrease of \$6.2 million).

Funds from Operations is utilized by management to evaluate the ability of the Company to generate cash from operations. This is considered a measure of operating performance as it demonstrates the Company's ability to fund distributions of cash flow on an ongoing basis to shareholders as dividends and to repurchase common shares under the Company's NCIB, as well as fund complementary acquisitions. Such a measure provides a useful indicator of the Company's operations on an ongoing basis by eliminating certain non-cash charges. Funds from Operations in Q2 2017 and YTD 2017 were \$75.0 million and \$142.3 million, respectively, an increase of 75% and 69% from \$42.8 million in Q2 2016 and \$84.2 million YTD 2016 due to higher royalty revenues as a result of increased production volumes and improved commodity prices and increased bonus consideration, partially offset by cash income taxes.

The Company had positive working capital of \$108.0 million as at June 30, 2017, of which \$96.9 million was cash and cash equivalents. At June 30, 2017, accounts receivable and accrued revenue consisted primarily of trade receivables and accrued revenue related to lease and royalty payments, production and mineral taxes receivable from lessees as well as the current portion of the royalty note receivable. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month; however, payments to royalty owners are often delayed longer, and as a result, actual payments may differ from estimates recorded. Accounts payable and accrued liabilities consisted primarily of production and mineral taxes payable and share-based compensation and salary related accruals.

## INVESTING ACTIVITIES

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For Q2 2017 and YTD 2017, cash used in investing activities was \$9.7 million (Q2 2016 - \$20.2 million) and \$247.8 million (YTD 2016 - \$13.7 million), respectively, including royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A.

## FINANCING ACTIVITIES

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For Q2 2017, cash used in financing activities was \$56.1 million (Q2 2016 - \$47.2 million). YTD 2017, cash from financing activities was \$168.6 million (YTD 2016 - cash used in financing activities of \$105.4 million). The dividends paid in Q2 2017 of \$44.5 million were higher than in the comparable 2016 period due to the additional shares issued in 2017, in combination with the increased dividend announced in February 2017. In addition, the Company repurchased \$11.6 million in common shares under the NCIB in Q2 2017 (Q2 2016 - \$6.0 million) as described below. YTD 2017, \$21.7 million in common shares have been repurchased (YTD 2016 - \$6.0 million). At June 30, 2017, working capital included cash of \$96.9 million. The increase in cash at June 30, 2017 compared to December 31, 2016 is due in part to completion of the January 6, 2017 financing whereby the Company issued 9.2 million common shares at a price of \$31.40 per common share, for aggregate gross proceeds of approximately \$288.9 million and net proceeds, after fees and expenses, of approximately \$276.9 million. Substantially all of the proceeds of this financing were used as consideration for the \$250 million Lindbergh Acquisition as detailed under the "Acquisitions" section of this MD&A. In addition, PrairieSky generated funds from operations in excess of dividends, NCIB purchases and cash acquisitions, excluding the Lindbergh Acquisition, during the YTD 2017 period, thus increasing the cash on hand at June 30, 2017.

## Credit Facility

The Company has a \$25 million extendible operating Credit facility (the "Credit Facility") which is unsecured, does not have a borrowing base restriction, and has a two-year term, extendible annually for up to three years, subject to certain requirements. During Q2 2017, the Credit Facility was extended for an additional two-year term. The maturity date is May 29, 2020. As at June 30, 2017, the Credit Facility was undrawn.

## Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board of Directors. Dividends declared were \$44.5 million or \$0.1875 per share for Q2 2017 and \$87.7 million or \$0.3700 per share for YTD 2017. On February 27, 2017, the Company announced that the Board had increased the monthly dividend from \$0.06 per common share per month or \$0.72 per common share on an annualized basis to \$0.0625 per common share per month or \$0.75 per common share on an annualized basis effective

for the March 31, 2017 record date. On June 15, 2017, the Board declared a dividend of \$0.0625 per common share to shareholders of record on June 30, 2017. The dividend was paid to shareholders on July 17, 2017.

The Board of Directors reviews and determines the dividend rate annually after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, income taxes, and PrairieSky's capacity to fund operating and investing opportunities. The dividend rate is established with the intent of absorbing short-term market volatility over several months. It also recognizes the intention of maintaining a strong financial position to take advantage of business development opportunities and withstanding periods of commodity price volatility.

### Outstanding Share Data

As at June 30, 2017, PrairieSky had 236.6 million common shares outstanding (December 31, 2016 - 228.0 million) and 1.3 million outstanding stock options (December 31, 2016 - 1.0 million). As at July 24, 2017, common shares outstanding had decreased to 236.4 million common shares as result of the repurchase and cancellation of common shares under the NCIB.

### Capital Structure

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends and to repurchase shares for cancellation after consideration of the Company's financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not have capital expenditure commitments, which enhances its financial flexibility.

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, income taxes, available Credit Facility, share issuance costs and other factors. The Company's operating results and capital structure are impacted by the level of development activity by third parties on the Royalty Properties, commodity prices and the resultant royalty revenues, as well as the costs incurred by the Company.

Stewardship of the Company's capital structure is managed through its financial and operating forecast process. The Company's forecast of future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, production and mineral tax expense, administrative expense, income taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that, in the Company's view, would impact future cash flows.

On May 2, 2017, the Company announced the approval of the renewal of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to a maximum of 1,600,000 common shares over the twelve-month period commencing on May 4, 2017. The Company currently intends to use \$44.0 million to effect NCIB purchases over the next twelve months; however, the Company's board of directors may consider, from time to time, applying to the TSX to increase the amount of NCIB purchases. Purchases will be made on the open market through the TSX or alternative platforms at the market price of such common shares. All common shares purchased under the NCIB are cancelled.

During Q2 2017, the Company purchased for cancellation 397,200 common shares (Q2 2016 - 242,500 common shares) at a weighted average price of \$29.07 per common share (Q2 2016 - \$24.75 per common share) including commissions for total consideration of \$11.6 million (Q2 2016 - \$6.0 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$6.0 million (Q2 2016 - \$2.7 million) was charged to the deficit.

YTD 2017, the Company has purchased for cancellation 732,400 common shares (YTD 2016 - 242,500 common shares) at a weighted average price of \$29.59 per common share (YTD 2016 - \$24.75 per common



share) including commissions for total consideration of \$21.7 million (YTD 2016 - \$6.0 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$11.4 million (YTD 2016 - \$2.7 million) was charged to the deficit.

## RISK MANAGEMENT

### FINANCIAL RISKS

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The Company is exposed to financial risks arising from its financial assets and liabilities. Financial risks include market risk (commodity prices and interest rates), credit risk and liquidity risks.

#### Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in future royalty revenues with changes in commodity prices. Commodity prices for crude oil, NGL and natural gas are influenced by macroeconomic events that dictate the levels of supply and demand. The Company has not hedged its commodity price risk.

#### Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company has minimal interest rate risk as it is not drawn on its Credit Facility.

#### Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

The Company maintains a compliance program to ensure royalties are paid correctly on production from the Royalty Properties in accordance with the terms of the agreements. This includes reviewing and analyzing prices obtained by the royalty payor and ensuring that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases, overriding royalties, and other agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's leasing arrangements typically provide for termination of the lease in the event of non-payment of royalties which would result in a return of the petroleum and natural gas rights to the Company. In addition, the Company actively reviews its counterparties and takes its production in kind to mitigate credit risk as appropriate.

As at June 30, 2017, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. For the periods presented, the Company does not have an allowance for doubtful accounts nor does it provide for any doubtful accounts.

#### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At June 30, 2017, the Company had working capital of \$108.0 million including cash and cash equivalents of \$96.9 million. The Company also has access to funding alternatives through its Credit Facility.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and its Credit Facility. The primary uses of funds are acquisitions, administrative expenses, production and mineral taxes, income taxes, dividends, and the repurchase and cancellation of PrairieSky common shares.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of \$13.7 million, income tax payable of \$7.6 million and the dividend payable of \$14.8 million is less than one year. Included in accounts payable and accrued liabilities is \$2.6 million related to vested cash settled share unit awards which may or may not be paid in the next year.

The Company's royalty production volumes and resultant revenues with high operating netbacks provide significant liquidity. The Company's dividend, common share repurchases and capital commitments are discretionary.

## **FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS**

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For a detailed discussion of the risks, uncertainties and industry conditions associated with PrairieSky's business, refer to PrairieSky's Annual Information Form dated February 27, 2017, which is available at PrairieSky's SEDAR profile at [www.sedar.com](http://www.sedar.com), and at [www.prairiesky.com](http://www.prairiesky.com).

## **ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES**

### **ACCOUNTING JUDGMENTS AND ESTIMATES**

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Certain of the Company's accounting policies require subjective judgment about uncertain circumstances. The potential effect of these estimates, as described in the Company's 2016 Annual MD&A, have not changed during the current period. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

### **RECENT ACCOUNTING PRONOUNCEMENTS**

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#### **New Standards Issued Not Yet Adopted**

On April 26, 2016, the IASB issued its final amendments to IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to opening equity at the date of initial application for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. The Company has created a plan and is currently in the process of reviewing its various revenue streams and underlying leases with third parties to determine the impact, if any, that the adoption of IFRS 15 will have on its financial statements, as well as the impact that adoption of the standard will have on disclosure, including the disclosure of the disaggregation of revenue.

On July 24, 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard introduces new requirements for the classification and measurement of financial assets and liabilities. Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 amends the impairment model by introducing a new model for calculating impairment and includes a new hedge accounting model that better reflects risk management activities in the financial statements of entities that elect to apply hedge accounting. IFRS 9 will apply retrospectively, for annual periods beginning on or after January 1, 2018, and early adoption is permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company does not expect the standard to have a material impact on the Company's financial statements.



On January 13, 2016, the IASB issued IFRS 16, "Leases". The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019. Under the new standard, companies will recognize new assets and liabilities, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the standard to have a material impact on the financial statements.

## CONTROL ENVIRONMENT

In compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Company has completed the design of internal controls.

The Board, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets quarterly with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

Due to inherent limitations, internal controls over financial reporting ("ICFR") may not prevent or detect misstatements, and even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

## DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information to be disclosed by the Company is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures, as defined by National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's disclosure controls and procedures are believed to provide reasonable, but not absolute, assurance that the objectives of the control system are met.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting, as defined by National Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". Internal controls over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized and to facilitate the preparation of relevant, reliable and timely information. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There were no changes made to the Company's internal controls over financial reporting during the period beginning on April 1, 2017 and ending on June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company uses the 2013 Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control-Integrated Framework.

## SUMMARY OF QUARTERLY RESULTS AND TRENDS

(\$ millions, unless otherwise noted)	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
<b>FINANCIAL</b>								
Revenues	\$ 44.0	\$ 44.8	\$ 48.9	\$ 48.1	\$ 59.3	\$ 67.9	\$ 80.3	\$ 102.2
Funds from Operations	36.5	60.0	41.4	42.8	54.2	61.8	67.3	75.0
Per Share – basic and diluted <sup>(1)(2)</sup>	0.23	0.36	0.18	0.19	0.24	0.27	0.28	0.32
Net Earnings (Loss) and Comprehensive Income (Loss)	14.1	8.0	1.7	(5.7)	7.9	16.1	20.8	40.5
Per Share – basic and diluted <sup>(1)</sup>	0.09	0.05	0.01	(0.02)	0.03	0.07	0.09	0.17
Dividends declared <sup>(3)</sup>	50.8	58.6	63.3	41.2	41.1	41.1	43.2	44.5
Per Share	0.3250	0.3250	0.2767	0.1800	0.1800	0.1800	0.1825	0.1875
Working Capital at period end	203.4	211.5	202.5	171.1	168.1	44.2	97.6	108.0
<b>OPERATIONAL</b>								
<b>Royalty Production Volumes</b>								
Natural Gas (MMcf/d)	59.5	62.2	70.7	75.3	74.8	78.2	81.6	80.6
Crude Oil (bbls/d)	4,800	5,432	8,748	8,213	8,278	8,583	10,214	9,609
NGL (bbls/d)	1,309	1,852	2,550	2,395	2,305	2,362	2,998	2,664
Total (BOE/d)	16,026	17,651	23,081	23,158	23,050	23,978	26,812	25,706

<sup>(1)</sup> Net Earnings (Loss) and Comprehensive Income (Loss) and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.

<sup>(2)</sup> A Non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.

<sup>(3)</sup> A dividend of \$0.0625 per common share was declared on June 15, 2017. The dividend was paid on July 17, 2017 to shareholders of record on June 30, 2017.

Quarterly variances in revenues, net earnings, and funds from operations are primarily due to fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors. Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. Changes in the USD-CAD currency exchange rate impact the Company's oil revenue realization relative to benchmark WTI, which is referenced in U.S. dollars.

The Company's financial results over past quarters were influenced by the following trends in commodity pricing:

- The WTI quarterly average of US\$50.27 per bbl in Q2 2017 has increased 10% from US\$45.64 per bbl in Q2 2016.
- The AECO quarterly average of \$2.77 per mcf in Q2 2017 has increased 122% from \$1.25 per mcf in Q2 2016.
- Average realized NGL price of \$28.60 per bbl in Q2 2017 has increased 25% from \$22.79 per bbl in Q2 2016.
- Average total realized price of \$29.51 per BOE in Q2 2017 has increased 44% from \$20.50 per BOE in Q2 2016.

Q3 2016 revenues and funds from operations increased to \$59.3 million and \$54.2 million, respectively, from Q2 2016 amounts due to increased bonus consideration from leasing activity and improved natural gas pricing. Q4 2016 revenues increased as a result of increased production combined with improved commodity pricing with total realized pricing of \$28.47 as compared to \$24.62 in Q3 2016. Revenues

continued to improve through the first half of 2017 as a result of further increase in pricing and increases to production from acquisitions and incremental drilling on PrairieSky lands. Also contributing to the higher revenues in Q2 2017 was \$29.5 million in bonus consideration, an increase from \$3.0 million in Q1 2017.

Net earnings and comprehensive income during 2016 were impacted by higher depletion expense as a result of the acquisition of certain royalty assets from Canadian Natural Resources Limited (the "Transaction") in December 2015. A net loss was recorded in Q2 2016 due to higher depletion and deferred tax expense in combination with lower royalty revenues as a result of low natural gas pricing. Q4 2016 through Q2 2017, net earnings increased due to higher royalty revenues as a result of improved commodity prices and royalty production volumes as discussed above. Higher bonus consideration in Q2 2017 also positively impacted net earnings.

Dividends declared in Q1 2016 increased as a result of the issuance of 71.4 million common shares related to the Transaction in December 2015. Dividends declared in Q2 2016 onward decreased as a result of the reduction in the declared dividend to \$0.06 per common share on a monthly basis, effective for the March 31, 2016 record date. In January 2017, the Company issued 9.2 million common shares under a bought deal prospectus offering which resulted in a higher total dividend for Q1 2017. The monthly declared dividend was increased to \$0.0625 per common share for the March 31, 2017 record date.

Working capital decreased in Q4 2016 as a result of acquisitions for cash consideration made during the period. In Q1 2017, a bought deal offering of 9.2 million common shares was completed for net cash proceeds of \$276.9 million which, in combination with higher funds from operations, increased the working capital balance from year end 2016. Working capital continued to increase in Q2 2017 as a result of cash in excess of the dividend and NCIB purchases being generated from operations.

Production increased in Q1 2016 as a result of the closing of the Transaction on December 16, 2015. Production further increased in Q4 2016 and Q1 2017 as a result of acquisitions and incremental drilling on PrairieSky lands. Q1 2017 production had larger prior period adjustments as a result of royalty compliance recoveries than Q2 2017, resulting in the decrease in recorded production in Q2 2017.

## NON-GAAP MEASURES

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures are commonly used in the oil and gas industry and by the Company to provide potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include Operating Netback, Operating Netback per BOE and Funds from Operations per Share – basic and diluted. Management's use of these measures is discussed further below.

"Operating Netback" represents the cash margin for products sold. Operating Netback is calculated as royalty revenues less production and mineral taxes and administrative expenses. Operating Netback provides a consistent measure of the cash generating performance of the Royalty Properties to assess the comparability of the underlying performance between years.

"Operating Netback per BOE" represents the cash margin for products sold on a BOE basis. Operating Netback per BOE is calculated by dividing the Operating Netback by the production volumes for the period. Operating Netback per BOE is used to assess the cash generating performance per unit of product sold. Operating Netback per BOE measures are commonly used in the oil and gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for a summary of this reporting period's Operating Netback calculations.

"Funds from Operations per Share" are calculated on a weighted average basis using basic and diluted common shares outstanding during the period. This measure, together with other measures, are used by the investment community to assess the source, sustainability and cash available for dividends.

### FORWARD-LOOKING STATEMENTS

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This MD&A includes certain statements regarding PrairieSky's future plans and operations as at July 24, 2017, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- commodity prices including supply and demand factors relating to crude oil, natural gas and NGL;
- expected future commitments and payments related thereto;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention to distribute a majority of cash flow as dividends to shareholders and share cancellations over time, which intention could change with little or no notice;
- PrairieSky's normal course issuer bid and specifically the volume and value of future repurchases under the normal course issuer bid;
- the manner in which PrairieSky manages collection and credit risk and its belief that the diversity of payors mitigate this risk;
- possible revisions to accrued estimates based on receipt of actual results;
- impact of compliance activities and recoveries, which vary quarterly;
- expected impacts of accounting standards, including those announced but not yet adopted;
- the expectation that there will be no operating costs, capital costs, environmental liabilities, or abandonment and reclamation obligations associated with development of the Royalty Properties;
- changes to the legislative and regulatory frameworks in the jurisdictions in which the Company carries on a business;
- estimated general and administrative expenses;
- the ability to mitigate the risks of fluctuations in commodity prices and production volumes; and
- average production and contribution from the Royalty Properties.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, political and geopolitical instability, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to the acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with Encana, Canadian Natural, and other third parties, and limited ability to recover indemnification from such third parties under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in this MD&A under the heading "Risk Management".

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the ability of the lessees and working interest owners on the Royalty Properties to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Properties to comply with, and PrairieSky to enforce, lease terms and contractual provisions, as applicable, in order to receive payments; the ability of the lessees or working interest owners on the Royalty Properties to operate in a safe, efficient and effective manner; the timely receipt of any required regulatory approvals by lessees or working interest owners on the Royalty Properties; the willingness and financial capability of the lessees and working interest owners to continue

to develop and invest additional capital in the Royalty Properties; the ability of the lessees and working interest owners on the Royalty Properties to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Properties; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Properties through third party development and complementary acquisitions; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the operators of the properties in which PrairieSky has a royalty interest in, to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, the ability of PrairieSky or a third party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the PrairieSky's properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, general and administrative expenses and income tax expenses; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against or involving PrairieSky; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in crude oil and natural gas properties; future crude oil, natural gas and NGL prices and currency, exchange and interest rates; and PrairieSky's ability execute the volume and/or value of purchases as described under the normal course issuer bid.

Readers are cautioned that the assumptions used in the preparation of such forward looking information and statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievement could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. Statements relating to "reserves" are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive.

**Any forward-looking statement is made only as of the date of this MD&A, and PrairieSky undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for PrairieSky to predict all of these factors or to assess in advance the impact of each such factor on PrairieSky's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statements.**

**The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.**

You are further cautioned that the preparation of consolidated financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net earnings, as further information becomes available and as the economic environment changes.

#### **CONVERSIONS OF NATURAL GAS TO BOE**

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the

value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

#### **CURRENCY AND REFERENCES TO PRAIRIESKY**

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All information included in this MD&A, and the unaudited interim condensed consolidated financial statements is shown on a Canadian dollar basis.

For convenience, references in this document to the “Company”, “we”, “us”, “our”, and “its” may, where applicable, refer only to PrairieSky.

#### **ADDITIONAL INFORMATION**

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Additional information about PrairieSky, including the unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017, December 31, 2016 audited annual consolidated financial statements and notes thereto, and PrairieSky’s Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or PrairieSky’s website at [www.prairiesky.com](http://www.prairiesky.com).