PrairieSky Royalty Ltd.

Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read with the unaudited interim condensed financial statements for the three and nine month periods ended September 30, 2016 ("interim condensed financial statements") and the audited annual financial statements and related notes as at December 31, 2015 and 2014. This MD&A has been prepared as of October 25, 2016.

The interim condensed financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" 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 International Financial Reporting Standards ("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, Funds from Operations, Funds from Operations 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, including a reconciliation of Cash from Operating Activities to Funds from Operations.

The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbls/day"); barrel of oil equivalent ("BOE") per day ("BOE/day"); thousand cubic feet ("Mcf"); and million cubic feet ("MMcf") per day ("MMcf/day"). 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 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 September 30 2016	Three months ended September 30 2015	Nine months ended September 30 2016	Nine months ended September 30 2015
FINANCIAL				
Revenues	**$ 59.3**	$ 44.0	**$ 156.3**	$ 170.2
Funds from Operations[1]	**54.2**	36.5	**138.4**	117.8
Per Share – basic [2]	**0.24**	0.23	**0.61**	0.78
Per Share - diluted [2]	**0.24**	0.23	**0.60**	0.78
Net Earnings and Comprehensive Income	**7.9**	14.1	**3.9**	55.0
Per Share – basic and diluted[2]	**0.03**	0.09	**0.02**	0.36
Dividends declared[3]	**41.1**	50.8	**145.6**	147.9
Per Share	**0.1800**	0.3250	**0.6367**	0.9750
Acquisitions, including non-cash consideration	**5.0**	5.2	**32.6**	61.9
Working Capital	**168.1**	203.4	**168.1**	203.4
Shares outstanding				
Shares outstanding at period end	**228.4**	156.3	**228.4**	156.3
Weighted average - basic	**228.6**	155.6	**228.7**	151.5
Weighted average - diluted	**228.8**	156.0	**228.9**	151.9
OPERATIONAL				
Production Volumes				
Natural Gas (MMcf/d)	**74.8**	59.5	**73.6**	60.5
Crude Oil (bbls/d)	**8,278**	4,800	**8,413**	5,502
NGL (bbls/d)	**2,305**	1,309	**2,416**	1,503
Total (BOE/d)[4]	**23,050**	16,026	**23,096**	17,088
Realized Pricing				
Natural Gas ($/Mcf)	**1.84**	2.76	**1.43**	2.75
Crude Oil ($/bbl)	**45.79**	54.38	**41.52**	50.14
NGL ($/bbl)	**22.21**	25.10	**21.31**	23.16
Total ($/BOE)[4]	**24.62**	28.55	**21.90**	27.91
Operating Netback per BOE[5]	**$ 20.43**	$ 23.80	**$ 17.76**	$ 22.13
Funds from Operations per BOE[1]	**$ 25.56**	$ 24.76	**$ 21.87**	$ 25.25
Natural Gas Price Benchmarks				
AECO ($/Mcf)	**2.20**	2.75	**1.85**	2.79
Foreign Exchange Rate (US$/CAD$)	**0.7663**	0.7640	**0.7565**	0.7936
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**45.33**	46.94	**41.10**	50.92
Edmonton Light Sweet ($/bbl)	**54.14**	57.95	**50.44**	58.58

(1) Funds from Operations is defined under the Non-GAAP Measures section in this MD&A.
(2) Net Earnings and Comprehensive Income and Funds from Operations per common share are calculated using the weighted average number of common shares outstanding.
(3) A dividend of $0.06 per common share was declared on September 15, 2016. The dividend was paid on October 17, 2016 to shareholders of record as at September 30, 2016.
(4) See "Conversions of Natural Gas to BOE".
(5) Operating Netback per BOE is defined under the Non-GAAP Measures section in this MD&A.

RESULTS OVERVIEW

HIGHLIGHTS

During the three-month period ended September 30, 2016 (“Q3 2016”), PrairieSky reported:

- Revenues totaled $59.3 million, consisting of $52.2 million of royalty revenue, $1.3 million of lease rental income, $5.6 million of bonus consideration and $0.2 million of other income.
- Funds from operations of $54.2 million ($0.24 per share - basic).
- Average production of 23,050 BOE per day consisting of crude oil production volumes of 8,278 bbls per day, average NGL production volumes of 2,305 bbls per day and average natural gas production volumes of 74.8 MMcf per day.
- Cash administrative expense of $2.45 per boe decreased 28% on a boe basis from $3.39 per boe in the three-month period ended September 30, 2015 (“Q3 2015”) and 11% from $2.75 per boe in the three-month period ended June 30, 2016 (“Q2 2016”).
- Cash and cash equivalents of $159.4 million and positive working capital of $168.1 million at September 30, 2016.
- Capital asset acquisitions of $4.8 million funded from cash on hand.
- Dividends declared of $41.1 million ($0.18 per share).
- Purchased for cancellation 390,500 common shares at a weighted average price of $25.98 per common share for total consideration of $10.1 million under the normal course issuer bid (“NCIB”).

During the nine-month period ended September 30, 2016 (“YTD 2016”), PrairieSky reported:

- Revenues totaled $156.3 million, consisting of $138.6 million of royalty revenue, $6.4 million of lease rental income, $10.0 million of bonus consideration and $1.3 million of other income.
- Funds from operations of $138.4 million ($0.61 per share - basic).
- Average production of 23,096 BOE per day consisting of crude oil production volumes of 8,413 bbls per day, average NGL production volumes of 2,416 bbls per day and average natural gas production volumes of 73.6 MMcf per day.
- Cash administrative expense of $2.97 per boe decreased 18% on a boe basis from $3.64 per boe in the nine-month period ended September 30, 2015 (“YTD 2015”).

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 6.9 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 has royalty interests in approximately 36,000 wells and receives royalties from approximately 345 different industry payors. Since the beginning of 2016, the total number of royalty payors has decreased slightly due primarily to consolidation of industry participants. The Company receives approximately 74% of its monthly revenue from 25 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate for YTD 2016 was approximately 6.0%. 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 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 risks typically associated with the 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 and lease administration expenses. 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 nine months ended September 30, 2016.

PRAIRIESKY'S 2016 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 or tariffs 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 monitor its costs. As at September 30, 2016, PrairieSky had positive working capital of $168.1 million with $159.4 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 2016 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 has royalty interests in approximately 36,000 wells and receives royalty revenue 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, 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 pay out the majority of cash flow as dividends to shareholders over time.

PRODUCTION

PRODUCTION VOLUMES

	Three months ended September 30		Nine months ended September 30	
(Average daily)	**2016**	**2015**	**2016**	**2015**
Natural Gas (MMcf/d)	**74.8**	59.5	**73.6**	60.5
Crude Oil (bbls/d)	**8,278**	4,800	**8,413**	5,502
NGL (bbls/d)	**2,305**	1,309	**2,416**	1,503
Total Production (BOE/d)	**23,050**	16,026	**23,096**	17,088

PrairieSky's average daily production for Q3 2016 was 36% oil, 10% NGL and 54% natural gas as compared to the same period in 2015 when the production split was 30% oil, 8% NGL and 62% natural gas. There is a lag between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this lag, PrairieSky's production volumes and revenue include both positive and negative adjustments related to prior periods. In addition, collections related to compliance recoveries result in adjustments related to prior periods.

For the three months ended September 30, 2016

Natural gas production volumes for Q3 2016 of 74.8 MMcf per day were 26% higher than the 59.5 MMcf per day reported in Q3 2015 due to incremental new drilling and acquired production, primarily from the acquisition of certain royalty assets from Canadian Natural Resources Limited ("Canadian Natural") in December 2015 (the "Transaction"). Natural gas production volumes have also been impacted by positive volume adjustments from prior periods.

Crude oil production volumes for Q3 2016 of 8,278 bbls per day were 72% higher than the 4,800 bbls per day reported in Q3 2015 due to the impact of acquired production, primarily from the Transaction, and new incremental drilling outweighing natural declines and pricing on sliding scale royalties. Crude oil production volumes have also been impacted by positive volume adjustments from prior periods.

NGL production volumes for Q3 2016 of 2,305 bbls per day have increased 76% from 1,309 bbls per day reported in Q3 2015. The increase in NGL volumes period over period is due to acquisitions, primarily from the Transaction noted above. NGL production volumes have also been impacted by positive volume adjustments from prior periods.

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 hedges in place and does not currently intend to enter into any commodity price hedges.

For the nine months ended September 30, 2016

Natural gas production volumes for YTD 2016 of 73.6 MMcf per day were 22% higher than the 60.5 MMcf per day reported in YTD 2015 due to incremental new drilling and acquired production, primarily from the Transaction, outweighing the impact of natural declines. Natural gas production volumes have also been impacted by positive volume adjustments from prior periods.

Crude oil production volumes for YTD 2016 of 8,413 bbls per day were 53% higher than the 5,502 bbls per day reported in YTD 2015 due to the impact of acquired production, primarily from the Transaction, and new incremental drilling partially offsetting natural declines and pricing on sliding scale royalties. Crude oil production volumes have also been impacted by positive volume adjustments from prior periods.

NGL production volumes for YTD 2016 of 2,416 bbls per day have increased 61% from 1,503 bbls per day reported in YTD 2015. The increase in NGL volumes period over period is due to acquisitions, primarily from the Transaction noted above, and incremental volumes from new wells on stream outweighing the impact of natural declines. NGL production volumes have also been impacted by positive volume adjustments from prior periods.

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 September 30, 2016		**Three months ended September 30, 2015**	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Royalty revenue	**$ 52.2**	**$ 24.62**	$ 42.1	$ 28.55
Administrative expense	**(7.6)**	**(3.58)**	(5.0)	(3.39)
Production and mineral taxes	**(1.3)**	**(0.61)**	(2.0)	(1.36)
Operating Netback[1]	**$ 43.3**	**$ 20.43**	$ 35.1	$ 23.80

	Nine months ended September 30, 2016		**Nine months ended September 30, 2015**	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Royalty revenue	**$ 138.6**	**$ 21.90**	$ 130.2	$ 27.91
Administrative expense	**(22.9)**	**(3.62)**	(20.4)	(4.37)
Production and mineral taxes	**(3.3)**	**(0.52)**	(6.6)	(1.41)
Operating Netback[1]	**$ 112.4**	**$ 17.76**	$ 103.2	$ 22.13

	Three months ended September 30		**Nine months ended September 30**	
	2016	**2015**	**2016**	**2015**
Production Volumes (BOE/d)[2]	**23,050**	16,026	**23,096**	17,088

(1) Non-GAAP measure. See "Non-GAAP Measures" in this MD&A.
(2) See "Conversions of Natural Gas to BOE"

REVENUES

Royalty Revenue by Product ($ millions)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Natural Gas	**$ 12.6**	$ 24.0	**$ 28.8**	$ 75.3
Crude Oil	**34.9**	15.1	**95.7**	45.4
NGL	**4.7**	3.0	**14.1**	9.5
	52.2	42.1	**138.6**	130.2
Other Revenue ($ millions)				
Lease Rental Income	**$ 1.3**	$ 0.5	**$ 6.4**	$ 6.8
Bonus Consideration	**5.6**	1.2	**10.0**	32.0
Other Income	**0.2**	0.2	**1.3**	1.2
	7.1	1.9	**17.7**	40.0
Total Revenues	**$ 59.3**	$ 44.0	**$ 156.3**	$ 170.2

Revenues by Royalty Classification ($ millions)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Fee Lands	**$ 40.9**	$ 35.2	**$ 111.0**	$ 109.4
GORR Interests	**11.3**	6.9	**27.6**	20.8
Royalty Revenues	**52.2**	42.1	**138.6**	130.2
Other Revenues	**7.1**	1.9	**17.7**	40.0
Total Revenues	**$ 59.3**	$ 44.0	**$ 156.3**	$ 170.2

The Company's average royalty rate for Q3 2016 and YTD 2016 was approximately 6.0% compared to 6.7% for the comparable periods in 2015. The decrease in the average royalty rate is a combination of the impact from the Transaction, and the sliding scale impact on certain royalty volumes. During the three and nine months ended September 30, 2016, royalty revenue was $52.2 million and $138.6 million, respectively, compared to $42.1 million and $130.2 million for the same periods in 2015. The royalty revenue for both Q3 2016 and YTD 2016 increased over the same periods in the prior year as acquisitions and incremental drilling on PrairieSky lands led to increased production, which offset lower commodity prices and natural declines in the period.

During Q3 2016, revenue from the Lessor Interests was $40.9 million or 78% of total royalty revenue. Revenue from GORR Interests was $11.3 million or 22% of total royalty revenue for the same time period. In the comparative periods, $35.2 million or 84% and $6.9 million or 16%, respectively, of royalty revenue were generated from Lessor Interests and GORR Interests. The increase in revenue generated from GORR interests as a percentage of total royalty revenue is reflective of the impact of the Transaction in December 2015, as well as new drilling on previously acquired GORR lands.

During YTD 2016, revenue from the Lessor Interests was $111.0 million or 80% of total royalty revenue. Revenue from GORR Interests was $27.6 million or 20% of total royalty revenue for the same time period. In the comparative periods, $109.4 million or 84% and $20.8 million or 16%, respectively, of royalty revenue was generated from Lessor Interests and GORR Interests. The increase in revenue generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of the Transaction in December 2015, as well as new drilling on previously acquired GORR lands.

During Q3 2016, the Company averaged realized crude oil prices of $45.79 per bbl, NGL prices of $22.21 per bbl and natural gas prices of $1.84 per Mcf. Prices for all products were down from Q3 2015 when the Company averaged realized crude oil prices of $54.38 per bbl, NGL prices of $25.10 per bbl and $2.76 per Mcf for natural gas. Realized pricing for Q3 2016 trended downward with benchmark pricing for all products as compared to Q3 2015. YTD 2016, the Company averaged realized crude oil prices of $41.52 per bbl, NGL prices of $21.31 per bbl and natural gas prices of $1.43 per Mcf. Prices for all products were down from YTD 2015 when the Company averaged realized crude oil prices of $50.14 per bbl, NGL prices of

$23.16 per bbl and natural gas prices of $2.75 per mcf. Overall, commodity prices remained low throughout the first nine months of 2016 due to global supply and demand imbalances.

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 financial statements until collection is certain. For the three and nine month periods ended September 30, 2016, the Company collected $3.0 million and $4.9 million, respectively, in compliance recoveries.

Other revenue consists 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 Q3 2016 and YTD 2016 was $5.6 million (Q3 2015 - $1.2 million) and $10.0 million (YTD 2015 - $32.0 million), respectively. Both the amount and timing of bonus consideration revenue can vary significantly as it relates to the unique circumstances of each transaction.

ADMINISTRATIVE

	Three months ended September 30		Nine months ended September 30	
($ millions)	**2016**	**2015**	**2016**	**2015**
Salaries and Benefits	**$ 3.2**	$ 3.0	**$ 10.9**	$ 10.9
Share-Based Compensation	**2.4**	-	**5.8**	4.1
Office Expense	**1.2**	1.2	**3.8**	3.1
Public Company Expense	**0.2**	0.2	**0.8**	1.0
Information Technology and Other	**0.6**	0.6	**1.6**	1.3
Total Administrative Expense	**$ 7.6**	$ 5.0	**$ 22.9**	$ 20.4

	Three months ended September 30, 2016		Three months ended September 30, 2015	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Administrative – cash	**$ 5.2**	**$ 2.45**	$ 5.0	$ 3.39
Administrative – non-cash	**2.4**	**1.13**	-	-
Total Administrative Expense	**$ 7.6**	**$ 3.58**	$ 5.0	$ 3.39

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Administrative – cash	**$ 18.8**	**$ 2.97**	$ 17.0	$ 3.64
Administrative – non-cash	**4.1**	**0.65**	3.4	0.73
Total Administrative Expense	**$ 22.9**	**$ 3.62**	$ 20.4	$ 4.37

PrairieSky is committed to cost control in its business. Administrative expense for Q3 2016 and YTD 2016 was $3.58 per BOE (Q3 2015 - $3.39 per BOE) and $3.62 per BOE (YTD 2015 - $4.37 per BOE), respectively. Administrative expense in Q3 2016 and YTD 2016 include non-cash administrative expense related to the share-based compensation plans. This expense is impacted by the closing share price at period end and as such, is subject to variability. Salaries and share-based compensation costs for the Q3 2016 and YTD 2016 periods includes nil (Q3 2015 - $0.2 million) and $1.3 million (YTD 2015 - $1.6 million) related to non-recurring severance costs, respectively.

Of the total share-based compensation for Q3 2016, $0.3 million (Q3 2015 - $0.2 million) related to the stock option plan and there was $1.9 million of expense (Q3 2015 - nil) related to the restricted share units ("RSU") and performance share units ("PSU") plans. The Company recorded $0.2 million of expense (Q3 2015 - recovery of $0.2 million) related to the Company's Deferred Share Unit ("DSU") plan. The majority of Directors elected to receive their annual Board of Directors ("Board") and Committee retainers and fees in the form of DSUs.

Of the total share-based compensation for YTD 2016, $0.9 million (YTD 2015 - $1.0 million) related to the stock option plan and there was $3.9 million of expense (YTD 2015 - $2.7 million) related to the RSU and PSU plans. The Company recorded $1.0 million (YTD 2015 - $0.4 million) related to the Company's DSU plan.

Share-based compensation expense increased in Q3 2016 and YTD 2016 as a result of the grant of 371,346 stock options, 89,468 PSUs, 118,618 RSUs and 30,155 DSUs at the beginning of 2016 related to the Company's 2016 annual compensation cycle for directors, officers and employees. Total outstanding units and options from all employee incentive plans is less than 1% of total shares outstanding at September 30, 2016.

PRODUCTION AND MINERAL TAXES

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Production and Mineral Taxes	**$ 1.3**	$ 2.0	**$ 3.3**	$ 6.6
$/BOE	**$ 0.61**	$ 1.36	**$ 0.52**	$ 1.41

Production and mineral tax is levied on an annual basis on the value of crude oil and natural gas production from non-Crown lands. Throughout the period, it is impacted by production estimates and prices. For Q3 2016 and YTD 2016, production and mineral taxes, which includes Alberta freehold mineral tax and Saskatchewan acreage tax, averaged approximately 2% of royalty revenues compared to approximately 5% in the comparable 2015 periods. The decrease in production and mineral taxes as a percentage of royalty revenues is a result of the Transaction which increased the Company's number of Saskatchewan leases which do not attract Alberta freehold mineral tax. In addition, amounts recorded in 2016 have been adjusted to reflect the production and mineral taxes actually paid for fiscal 2015 which was lower as a result of reduced commodity prices.

DEPLETION, DEPRECIATION AND AMORTIZATION ("DD&A")

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Depletion, Depreciation and Amortization	**$ 40.9**	$ 22.9	**$ 122.6**	$ 70.9
$/BOE	**$ 19.29**	$ 15.53	**$ 19.37**	$ 15.20

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 higher for both Q3 2016 and YTD 2016 due to the increase in royalty assets primarily due to the Transaction in December 2015.

EXPLORATION AND EVALUATION EXPENSE ("E&E")

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Exploration and Evaluation Expense	**$ 2.6**	$ 0.8	**$ 5.4**	$ 1.3
$/BOE	**$ 1.23**	$ 0.54	**$ 0.85**	$ 0.28

During Q3 2016 and YTD 2016, $2.6 million (Q3 2015 - $0.8 million) and $5.4 million (YTD 2015 - $1.3 million), respectively, of costs associated with expired mineral leases and gross overriding royalties were recognized as an expense. The increase in expense is a result of the timing of lease expiries and the increase in Crown land acres through acquisitions. These Q3 2016 expiries result in a reduction of GORR and other acreage from 7.0 million acres to 6.9 million acres.

FINANCE

($ millions, except per share data)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Finance Income	**$ (0.6)**	$ (0.6)	**$ (1.8)**	$ (1.1)
Finance Expense	**-**	0.3	**0.2**	0.5
Net Finance Expense	**(0.6)**	(0.3)	**(1.6)**	(0.6)

Finance income includes interest on funds on deposit, short term investments and a note receivable. Finance expense includes credit facility set-up and stand-by fees. Finance expense in Q3 2016 decreased from Q3 2015 due to the reduced standby fees associated with the voluntary reduction to the credit facility completed in Q2 2016. Finance income increased 64% in the YTD 2016 period compared to YTD 2015 as a result of the increased cash balance held during YTD 2016 arising from the common share financing completed in July 2015.

INCOME TAX

($ millions, except per share data)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Current Tax Expense	**-**	$ 1.7	**$ -**	$ 15.7
Deferred Tax Expense (Recovery)	**$ (0.4)**	(2.2)	**(0.2)**	0.9
Income Tax Expense (Recovery)	**(0.4)**	(0.5)	**(0.2)**	16.6

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 Q3 2016 and YTD 2016 were $7.9 million ($0.03 per share, basic and diluted) and $3.9 million ($0.02 per share, basic and diluted), respectively, compared to $14.1 million for Q3 2015 ($0.09 per share, basic and diluted) and $55.0 million for YTD 2015 ($0.36 per share, basic and diluted). The decrease in net earnings for Q3 2016 and YTD 2016 compared to the same periods in 2015 is due to higher depletion expense subsequent to the Transaction. YTD 2016 also had $10.0 million in bonus consideration compared to $32.0 million in the YTD 2015 period which illustrates the variability of this revenue stream.

ACQUISITIONS

During Q3 2016, the Company completed acquisitions with an aggregate cost of $5.0 million (Q3 2015 - $5.2 million) comprised of royalty assets of $0.2 million (Q3 2015 - $4.4 million) and E&E assets of $4.8 million (Q3 2015 - $0.8 million). The Company paid $2.7 million related to the final settlement regarding the Transaction for the interim period between the effective date of October 1, 2015 and the closing date of December 16, 2015.

During YTD 2016, asset acquisitions of $32.6 million (YTD 2015 - $61.9 million) were comprised of royalty assets of $22.1 million (YTD 2015 - $39.3 million) and E&E assets of $10.5 million (YTD 2015 - $22.6 million). YTD 2016, the Company collected $14.5 million in receivables and paid $2.7 million related to the final settlement of the Transaction in December 2015 for the interim period as noted above.

The value of assets received in lieu of cash bonus consideration for Q3 and YTD periods in 2016 were $0.2 million. In Q3 and YTD 2015, nil and $15.7 million of assets were received in lieu of cash bonus consideration.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	Three months ended September 30 2016	2015	Nine months ended September 30 2016	2015
Net Cash From (Used In)				
Operating Activities	**$ 68.4**	$ 56.4	**$ 146.4**	$ 124.8
Investing Activities	**(7.5)**	(4.7)	**(21.2)**	(45.7)
Financing Activities	**(51.2)**	149.9	**(156.6)**	61.6
Increase (Decrease) in Cash and Cash Equivalents	**9.7**	201.6	**(31.4)**	140.7
Cash and Cash Equivalents, End of Period	**$ 159.4**	$ 203.8	**$ 159.4**	$ 203.8

OPERATING ACTIVITIES

Net cash from operating activities for Q3 2016 and YTD 2016 was $68.4 million and $146.4 million, respectively, compared to $56.4 million and $124.8 million for the comparable periods in 2015. During Q3 2016, the Company recorded $2.6 million of non-cash expense associated with expired mineral leases (Q3 2015 - $0.8 million). In Q3 2016, the net change in other assets was an increase of $1.0 million (Q3 2015 - increase of $0.9 million), and the net change in non-cash working capital was an increase of $14.2 million (Q3 2015 - increase of $19.9 million) which was partially a result of the collection of $12.8 million of current income tax receivable. For YTD 2016, the net change in other assets was an increase of $2.8 million (YTD 2015 - increase $2.7 million) and the net change in non-cash working capital was an increase of $8.0 million (YTD 2015 - increase of $7.0 million). YTD 2016 cash flow from operating activities was reduced by $0.2 million (YTD 2015 - $16.4 million) of non-monetary bonus consideration.

The Company had positive working capital of $168.1 million as at September 30, 2016. At September 30, 2016, accounts receivable and accrued revenue consisted primarily of trade receivables and accrued revenue related to lease and royalty payments 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 consist primarily of production and mineral taxes payable and share-based compensation and salary related accruals. At September 30, 2016, working capital included cash of $159.4 million.

INVESTING ACTIVITIES

For Q3 2016 and YTD 2016, cash used in investing activities was $7.5 million (Q3 2015 - $4.7 million) and $21.2 million (YTD 2015 - $45.7 million) including royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A of $4.8 million and $32.4 million, respectively. In addition, there was a cash outflow from investing activities in Q3 2016 of $2.7 million and a cash inflow YTD 2016 of $11.8 million related to cash collections of receivables and final payments from the Transaction for the interim period between the effective date of October 1, 2015 and the closing date of December 16, 2015.

FINANCING ACTIVITIES

For Q3 2016 and YTD 2016, cash used in financing activities was $51.2 million (Q3 2015 - cash from financing activities of $149.9 million) and $156.6 million (YTD 2015 - cash from financing activities of $61.6 million), respectively, related primarily to dividend payments. The dividends paid in Q3 2016 and YTD 2016 were higher than in the same periods in the prior year as a result of the additional shares issued under the common share financing noted below and as consideration for the Transaction in December 2015. In addition, the Company repurchased $10.1 million in common shares under the NCIB in Q3 2016 (YTD 2016 - $16.1 million) as described below. There were no common shares repurchased during 2015.

The 2015 financing cash flows were increased by $189.5 million in net proceeds received for the common share financing completed on July 7, 2015.

Credit Facility

On May 18, 2016, the Company elected to voluntarily eliminate the $75 million revolving credit facility (the "Revolving Facility") in order to reduce future finance expense, such that the total syndicated facility commitment is zero. The Company has retained the unsecured $25 million extendible operating credit facility (the "Credit Facility"). The Credit Facility maturity date is May 29, 2018.

Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were $41.1 million or $0.18 per share for the third quarter of 2016. On February 29, 2016, the Company announced that the Board had adjusted the monthly dividend from $1.30 per common share on an annualized basis, to $0.06 per common share per month or $0.72 per common share on an annualized basis, effective for the March 31, 2016 record date. On September 15, 2016, the Board declared a dividend of $0.06 per common share, paid on October 17, 2016, to shareholders of record as at September 30, 2016.

During 2015 and Q1 2016, PrairieSky offered a Dividend Reinvestment Plan ("DRIP") and Stock Dividend Plan ("SDP") as optional plans for its shareholders. The DRIP provided the option for Canadian holders of PrairieSky common shares to have their cash dividends reinvested into additional common shares of PrairieSky. The SDP provided the option for shareholders to receive dividends in the form of common shares of PrairieSky in lieu of receiving a cash dividend on the dividend payment date. Under the DRIP and SDP, common shares were issued at a one percent discount to the prevailing market price with no broker fees or commissions. On February 29, 2016, the Company announced the suspension of the DRIP and SDP.

The Board reviews and determines the dividend rate annually after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, taxes payable, 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 withstand periods of commodity price volatility.

Outstanding Share Data

As at September 30, 2016, PrairieSky had 228.4 million common shares outstanding (December 31, 2015 - 228.2 million) and 1.0 million outstanding stock options (December 31, 2015 - 0.8 million). As at October 25, 2016, common shares outstanding had decreased to 228.3 million as a result of the repurchase and cancellation of common shares under the NCIB as described below.

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 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, 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, general and administrative expense 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 cash flow.

On April 27, 2016, the Company announced that the Toronto Stock Exchange ("TSX") had approved the NCIB. The NCIB allows the Company to purchase for cancellation up to a maximum of 1,600,000 common shares. The NCIB will continue until May 1, 2017, at which time the Company may apply to renew the NCIB at the same or at a higher/lower level for an additional 12-month period. Purchases are 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 Q3 2016, the Company purchased for cancellation 390,500 common shares (2015 - nil) at a weighted average price of $25.98 per common share including commissions. YTD 2016, the Company purchased for cancellation 633,000 common shares at a weighted average price of $25.50 per common share including commissions. 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 $7.6 million (2015 - nil) was charged to the deficit.

COMMITMENTS

CONTRACTUAL COMMITMENTS

($ millions)	Expected Future Payments						
(undiscounted)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Office lease commitments	**$ 0.3**	**$ 1.4**	**$ 1.4**	**$ 1.4**	**$ 1.4**	**$ 4.7**	**$ 10.6**

The Company has in place three royalty acquisition agreements with unrelated parties. The agreements expire on December 31, 2016, August 1, 2017, and July 31, 2018 with remaining commitments, subject to numerous conditions, of $0.8 million, $2.7 million, and $5.0 million, respectively.

RISK MANAGEMENT

FINANCIAL RISKS

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 prices obtained by the royalty payor and that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases 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 September 30, 2016, there was no 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 September 30, 2016, the Company had working capital of $168.1 million including cash of $159.4 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, cash taxes, dividends, and the repurchase of PrairieSky common shares.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $15.3 million and dividend payable of $13.7 million is less than one year.

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

FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS

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 29, 2016 which is available at PrairieSky's SEDAR profile at www.sedar.com.

ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

ACCOUNTING JUDGMENTS AND ESTIMATES

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 2015 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.

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

The CEO and CFO have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") as defined in NI 52-109 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 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO are responsible for establishing and maintaining ICFR. They have designed, or caused to be designed under their supervision, ICFR as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. There have been no changes to internal controls over financial reporting since December 31, 2015.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

Quarterly variances in revenues, net income, 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 the benchmark WTI, which is referenced in U.S. dollars, with the weaker Canadian dollar in 2015 and 2016 positively impacting oil revenues.

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

- The WTI quarterly average of US$45.33 per bbl in Q3 2016 has decreased 3% from US$46.94 per bbl in Q3 2015.
- The AECO quarterly average of $2.20 per mcf in Q3 2016 has decreased 20% from $2.75 per mcf in Q3 2015.
- Average realized NGL price of $22.21 per bbl in Q3 2016 has decreased 12% from $25.10 per bbl in Q3 2015.
- Average total realized price of $24.62 per BOE in Q3 2016 has decreased 14% from $28.55 per BOE in Q3 2015.

Revenues in Q2 2015 increased from Q1 2015 as a result of $24.8 million in bonus consideration received during the period. Revenues and Funds from Operations increased to $59.3 million and $54.2 million, respectively, in Q3 2016 due to increased bonus consideration from leasing activity and improved natural gas pricing.

Net earnings (loss) and comprehensive income (loss) in all quarters since Q1 2015 have been impacted by higher depletion expense as a result of the acquisition of a private royalty business in December 2014. Net earnings and comprehensive income YTD 2016 were further impacted by higher depletion expense as a result of the Transaction in December 2015. A net loss was recorded in Q2 2016 as a result of the higher depletion and deferred tax expense in combination with lower revenues.

Dividends declared in Q4 2015 increased as a result of the issuance of 71.4 million common shares related to the Transaction during the quarter. Dividends declared in Q2 2016 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.

Working capital increased in Q3 2015 as a result of the issuance of 6.3 million common shares for net proceeds of $189.5 million. Working capital decreased in Q2 2016 as a result of capital expenditures made during the period and the initiation of the NCIB in May 2016.

Production increased in Q4 2015 and further in Q1 2016 as a result of the closing of the Transaction on December 16, 2015. Q1 2016 was the first quarter which included three months of production generated from the acquired properties.

($ millions, unless otherwise noted)	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016
FINANCIAL								
Revenues	**$ 69.6**	**$ 54.4**	**$ 71.8**	**$ 44.0**	**$ 44.8**	**$ 48.9**	**$ 48.1**	**$ 59.3**
Funds from Operations[1]	**59.0**	**37.7**	**43.6**	**36.5**	**60.0**	**41.4**	**42.8**	**54.2**
Per Share – basic and diluted[2]	**0.44**	**0.25**	**0.29**	**0.23**	**0.36**	**0.18**	**0.19**	**0.24**
Net Earnings (Loss) and Comprehensive Income (Loss)	**50.7**	**16.8**	**24.1**	**14.1**	**8.0**	**1.7**	**(5.7)**	**7.9**
Per Share – basic and diluted[2]	**0.38**	**0.11**	**0.16**	**0.09**	**0.05**	**0.01**	**(0.02)**	**0.03**
Dividends declared[3]	**43.2**	**48.5**	**48.6**	**50.8**	**58.6**	**63.3**	**41.2**	**41.1**
Per Share	**0.3174**	**0.3250**	**0.3250**	**0.3250**	**0.3250**	**0.2767**	**0.1800**	**0.1800**
Working Capital	**71.4**	**56.9**	**22.6**	**203.4**	**211.5**	**202.5**	**171.1**	**168.1**
OPERATIONAL								
Production Volumes								
Natural Gas (MMcf/d)	**58.6**	**62.5**	**59.5**	**59.5**	**62.2**	**70.7**	**75.3**	**74.8**
Crude Oil (bbls/d)	**6,069**	**5,968**	**5,751**	**4,800**	**5,432**	**8,748**	**8,213**	**8,278**
NGL (bbls/d)	**1,444**	**1,666**	**1,537**	**1,309**	**1,852**	**2,550**	**2,395**	**2,305**
Total (BOE/d)	**17,280**	**18,051**	**17,205**	**16,026**	**17,651**	**23,081**	**23,158**	**23,050**

(1) A Non-GAAP measure, which is defined under the Non-GAAP Measures section in this MD&A.
(2) Net Earnings (Loss) and Comprehensive Income (Loss) and Funds from Operations per common share are calculated using the weighted average number of common shares outstanding.
(3) A dividend of $0.06 per common share was declared on September 15, 2016. The dividend was paid on October 17, 2016 to shareholders of record as at September 30, 2016.

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, Funds from Operations, Funds from Operations 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 revenues excluding other 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 using Operating Netback, excluding other revenues, on a per BOE basis. Operating Netback per BOE is used to assess the ability to provide 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 the summary of this reporting period's Operating Netback calculations.

FUNDS FROM OPERATIONS

Funds from Operations is defined as cash from operating activities, before the net change in non-cash working capital. Funds from Operations per BOE is defined as cash from operating activities, before the net change in non-cash working capital on a BOE basis. 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 capital expenditures and meet the intention of the Company to distribute cash flow on an ongoing basis to shareholders as dividends. Such a measure provides a useful indicator of the Company's operations on an ongoing basis by eliminating certain non-cash charges. Below is a reconciliation of Funds from Operations to Cash From Operating Activities, which is the most comparable IFRS measure.

	Three months ended September 30, 2016		**Three months ended September 30, 2015**	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Cash From Operating Activities	**$ 68.4**	**$ 32.26**	$ 56.4	$ 38.25
Add back (deduct):				
Net Change in Non-cash Working Capital	**(14.2)**	**(6.70)**	(19.9)	(13.49)
Funds From Operations	**$ 54.2**	**$ 25.56**	$ 36.5	$ 24.76

	Nine months ended September 30, 2016		**Nine months ended September 30, 2015**	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Cash from Operating Activities	**$ 146.4**	**$ 23.13**	$ 124.8	$ 26.75
Add back (deduct):				
Net Change in Non-cash Working Capital	**(8.0)**	**(1.26)**	(7.0)	(1.50)
Funds From Operations	**$ 138.4**	**$ 21.87**	$ 117.8	$ 25.25

FUNDS FROM OPERATIONS PER SHARE CALCULATIONS – BASIC AND DILUTED

The following table presents the computation of Funds from Operations per Share:

	Three months ended September 30		**Nine months ended September 30**	
($ millions, except per share data)	**2016**	**2015**	**2016**	**2015**
Funds from Operations	**$ 54.2**	$ 36.5	**$ 138.4**	$ 117.8
Number of common shares:				
Weighted average common shares outstanding – basic	**228.6**	155.6	**228.7**	151.5
Effect of dilutive securities	**0.2**	0.4	**0.2**	0.4
Weighted average common shares outstanding – diluted	**228.8**	156.0	**228.9**	151.9
Funds from Operations per Share				
Basic	**$ 0.24**	$ 0.23	**$ 0.61**	$ 0.78
Diluted	**$ 0.24**	$ 0.23	**$ 0.60**	$ 0.78

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at October 25, 2016, 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 natural gas liquids;
- 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 payout a majority of cash flow as dividends to shareholders 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;
- 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, 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 and Canadian Natural, and limited ability to recover indemnification from Encana and Canadian Natural under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in the 2015 Annual 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 acquisitions and third party development; 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, if any, 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 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 income, 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

All information included in this MD&A, and the interim condensed 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

Additional information about PrairieSky, including the unaudited interim condensed financial statements for the three and nine months ended September 30, 2016, the 2015 audited annual financial statements and notes thereto, and PrairieSky's Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky's website at www.prairiesky.com.