PrairieSky Royalty Ltd.

Management's Discussion and Analysis

For the year ended December 31, 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 in conjunction with the audited annual consolidated financial statements as at and for the year ended December 31, 2016 ("financial statements"). This MD&A has been prepared as of February 27, 2017.

The 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 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 December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
FINANCIAL				
Revenues	**$ 67.9**	$ 44.8	**$ 224.2**	$ 215.0
Funds from Operations[1]	**61.8**	60.0	**200.2**	177.8
Per Share – basic and diluted[2]	**0.27**	0.36	**0.88**	1.14
Net Earnings and Comprehensive Income	**16.1**	8.0	**20.0**	63.0
Per Share – basic and diluted[2]	**0.07**	0.05	**0.09**	0.40
Dividends declared[3]	**41.1**	58.6	**186.7**	206.5
Per Share	**0.1800**	0.3250	**0.8167**	1.3000
Acquisitions, including non-cash consideration	**112.2**	1,463.2	**144.8**	1,525.1
Working Capital at period end	**44.2**	210.3	**44.2**	210.3
Shares outstanding (millions)				
Shares outstanding at period end	**228.0**	228.2	**228.0**	228.2
Weighted average - basic	**228.2**	168.2	**228.6**	155.7
Weighted average - diluted	**228.5**	168.4	**228.8**	156.0
OPERATIONAL				
Royalty Production Volumes				
Natural Gas (MMcf/d)	**78.2**	62.2	**74.7**	60.9
Crude Oil (bbls/d)	**8,583**	5,432	**8,455**	5,484
NGL (bbls/d)	**2,362**	1,852	**2,403**	1,591
Total (BOE/d)[4]	**23,978**	17,651	**23,308**	17,225
Realized Pricing				
Natural Gas ($/Mcf)	**2.27**	2.45	**1.65**	2.67
Crude Oil ($/bbl)	**52.09**	40.74	**44.22**	47.80
NGL ($/bbl)	**24.14**	22.65	**22.01**	23.01
Total ($/BOE)[4]	**28.47**	23.59	**23.61**	26.80
Operating Netback per BOE[5]	**$ 23.16**	$ 18.29	**$ 19.17**	$ 21.14
Funds from Operations per BOE[1]	**$ 28.01**	$ 36.95	**$ 23.47**	$ 28.28
Natural Gas Price Benchmarks				
AECO ($/Mcf)	**2.82**	$ 2.65	**2.09**	$ 2.75
Foreign Exchange Rate (US$/CAD$)	**0.7496**	0.7489	**0.7548**	0.7820
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**48.64**	41.71	**42.99**	48.61
Edmonton Light Sweet ($/bbl)	**59.95**	52.16	**52.82**	56.97

(1) Funds from Operations and Funds from Operations per BOE are 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 December 15, 2016. The dividend was paid on January 16, 2017 to shareholders of record as at December 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 December 31, 2016 ("Q4 2016"), PrairieSky reported:

- Completion of four separate acquisition transactions for aggregate consideration of $117.3 million, representing approximately 460 BOE per day (83% liquids) of high quality royalty production and over 100,000 acres of mineral title and royalty lands. In the two largest transactions, the Company acquired a combined 3.95% royalty interest at Onion Lake, Saskatchewan representing exposure to a long life heavy and thermal oil project, including future phases.
- Revenues totaled $67.9 million, consisting of $62.8 million of royalty revenue, $2.1 million of lease rental income, $2.4 million of bonus consideration and $0.6 million of other income.
- Funds from operations of $61.8 million ($0.27 per share – basic and diluted).
- Average royalty production of 23,978 BOE per day consisting of crude oil production volumes of 8,583 bbls per day, average NGL production volumes of 2,362 bbls per day and average natural gas production volumes of 78.2 MMcf per day.
- Cash administrative expense of $2.22 per boe decreased 44% on a boe basis from $3.94 per boe in the three-month period ended December 31, 2015 ("Q4 2015") and 9% from $2.45 per boe in the three-month period ended September 30, 2016 ("Q3 2016").
- Cash and cash equivalents of $34.0 million and positive working capital of $44.2 million at December 31, 2016.
- Dividends declared of $41.1 million ($0.18 per share).
- Purchased for cancellation 327,000 common shares at a weighted average price of $30.01 per common share for total consideration of $9.9 million under the normal course issuer bid ("NCIB").

During the year ended December 31, 2016 ("YE 2016"), PrairieSky reported:

- Revenues totaled $224.2 million, consisting of $201.4 million of royalty revenue, $8.5 million of lease rental income, $12.4 million of bonus consideration and $1.9 million of other income.
- Funds from operations of $200.2 million ($0.88 per share – basic and diluted).
- Average royalty production of 23,308 BOE per day consisting of crude oil production volumes of 8,455 bbls per day, average NGL production volumes of 2,403 bbls per day and average natural gas production volumes of 74.7 MMcf per day.
- Cash administrative expense of $2.78 per boe decreased 25% on a boe basis from $3.72 per boe in the year ended December 31, 2015 ("YE 2015").

Subsequent to the year ended December 31, 2016, PrairieSky reported:

- On January 6, 2017, the Company completed its previously announced 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. A cash deposit of $15.0 million was paid upon execution of the agreement on December 14, 2016.
- On January 6, 2017, the Company also completed a bought deal offering of common shares (the "Offering"). Pursuant to the Offering, the Company issued 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 approximately $288.9 million and net proceeds, after fees and expenses, of approximately $276.8 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 6.7 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 340 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 73% of its monthly revenue from 25 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate for YE 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, 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 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. Although not cash taxable in 2016, based on current corporate tax pools, PrairieSky anticipates being cash taxable in 2017 and in subsequent fiscal periods.

Management's discussion and analysis for this reporting period focuses on the three months and year ended December 31, 2016.

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 monitor its costs. As at December 31, 2016, PrairieSky had positive working capital of $44.2 million with $34.0 million in cash.

On February 27, 2017, the Company announced that the Board has increased the monthly dividend from $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.

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 has royalty interests in approximately 36,000 wells and receives royalty revenue from approximately 340 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

	Three months ended December 31		Year ended December 31	
(Average daily)	**2016**	**2015**	**2016**	**2015**
Natural Gas (MMcf/d)	**78.2**	62.2	**74.7**	60.9
Crude Oil (bbls/d)	**8,583**	5,432	**8,455**	5,484
NGL (bbls/d)	**2,362**	1,852	**2,403**	1,591
Total Royalty Production (BOE/d)	**23,978**	17,651	**23,308**	17,225

PrairieSky's average daily royalty production for Q4 2016 was 36% oil, 10% NGL and 54% natural gas as compared to the same period in 2015 when the production split was 31% oil, 10% NGL and 59% natural gas. Average daily royalty production during YE 2016 was 37% oil, 10% NGL and 53% natural gas compared to 32% oil, 9% NGL and 59% natural gas during YE 2015. 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 December 31, 2016

Natural gas production volumes for Q4 2016 of 78.2 MMcf per day were 26% higher than the 62.2 MMcf per day reported in Q4 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 Q4 2016 of 8,583 bbls per day were 58% higher than the 5,432 bbls per day reported in Q4 2015 due to the impact of acquired production from the Transaction and from the four separate acquisitions recorded in Q4 2016 which were primarily liquids weighted. These acquisitions, in combination with new incremental drilling and sliding scale royalty pricing recoveries, outweighed natural declines. Crude oil production volumes have also been impacted by positive volume adjustments from prior periods.

NGL production volumes for Q4 2016 of 2,362 bbls per day have increased 28% from 1,852 bbls per day reported in Q4 2015. The increase in NGL volumes period over period is due to acquisitions, primarily from the Transaction noted above, as well as incremental volumes from new wells on stream. 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 commodity price hedges in place and does not currently intend to enter into any commodity price hedges.

For the year ended December 31, 2016

Natural gas production volumes for YE 2016 of 74.7 MMcf per day were 23% higher than the 60.9 MMcf per day reported in YE 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 YE 2016 of 8,455 bbls per day were 54% higher than the 5,484 bbls per day reported in YE 2015 due to the impact of acquired production, primarily from the Transaction, and new incremental drilling offsetting the average annual pricing effect of sliding scale royalties and natural declines. Crude oil production volumes have also been impacted by positive volume adjustments from prior periods.

NGL production volumes for YE 2016 of 2,403 bbls per day have increased 51% from 1,591 bbls per day reported in YE 2015. The increase in NGL volumes is due to acquisitions, primarily from the Transaction noted above, and incremental volumes from modifications to a third party facility in 2015 as well as 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 consolidated financial statements until collection is certain.

FINANCIAL RESULTS

OPERATING RESULTS

	Three months ended December 31, 2016 ($ millions)	Three months ended December 31, 2016 ($/BOE)	Three months ended December 31, 2015 ($ millions)	Three months ended December 31, 2015 ($/BOE)
Royalty revenue	**$ 62.8**	**$ 28.47**	$ 38.3	$ 23.59
Administrative expense	**(9.3)**	**(4.22)**	(6.7)	(4.13)
Production and mineral taxes	**(2.4)**	**(1.09)**	(1.9)	(1.17)
Operating Netback[1]	**$ 51.1**	**$ 23.16**	$ 29.7	$ 18.29

	Year ended December 31, 2016 ($ millions)	Year ended December 31, 2016 ($/BOE)	Year ended December 31, 2015 ($ millions)	Year ended December 31, 2015 ($/BOE)
Royalty revenue	**$ 201.4**	**$ 23.61**	$ 168.5	$ 26.80
Administrative expense	**(32.2)**	**(3.77)**	(27.1)	(4.31)
Production and mineral taxes	**(5.7)**	**(0.67)**	(8.5)	(1.35)
Operating Netback[1]	**$ 163.5**	**$ 19.17**	$ 132.9	$ 21.14

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Royalty Production Volumes (BOE/d)[2]	**23,978**	17,651	**23,308**	17,225

(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 December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Natural Gas	**$ 16.4**	$ 14.1	**$ 45.2**	$ 59.5
Crude Oil	**41.1**	20.4	**136.8**	95.7
NGL	**5.3**	3.8	**19.4**	13.3
	62.8	38.3	**201.4**	168.5
Other Revenue ($ millions)				
Lease Rental Income	**$ 2.1**	$ 1.8	**$ 8.5**	$ 8.6
Bonus Consideration	**2.4**	1.3	**12.4**	33.3
Other Income	**0.6**	3.4	**1.9**	4.6
	5.1	6.5	**22.8**	46.5
Total Revenues	**$ 67.9**	$ 44.8	**$ 224.2**	$ 215.0

Revenues by Classification ($ millions)	**Three months ended December 31** 2016	2015	**Year ended December 31** 2016	2015
Fee Lands	**$ 47.9**	$ 30.8	**$ 158.9**	$ 140.2
GORR Interests	**14.9**	7.5	**42.5**	28.3
Royalty Revenue	**62.8**	38.3	**201.4**	168.5
Other Revenue	**5.1**	6.5	**22.8**	46.5
Total Revenues	**$ 67.9**	$ 44.8	**$ 224.2**	$ 215.0

The Company's average royalty rate for Q4 2016 and YE 2016 was approximately 6.2% and 6.0%, respectively, compared to 6.3% and 6.5% for the comparable periods in 2015. The decrease in the average royalty rate during 2016 is due to the impact of additional drilling on GORR Interests lands and unitized royalties, and the impact of the Transaction which included additional GORR Interests which are typically at a lower percentage than new Fee Land leasing arrangements. During the three months and year ended December 31, 2016, royalty revenue was $62.8 million and $201.4 million, respectively, compared to $38.3 million and $168.5 million for the same periods in 2015. Q4 2016 royalty revenue increased by 64% compared to Q4 2015 due to a combination of increased production volumes and a recovery in the average realized price during the period. Royalty revenue for YE 2016 increased 20% over the same period in the prior year as acquisitions and incremental drilling on PrairieSky lands led to increased production, which offset lower commodity prices and natural declines throughout YE 2016.

During Q4 2016, revenue from the Lessor Interests was $47.9 million or 76% of total royalty revenue. Revenue from GORR Interests was $14.9 million or 24% of total royalty revenue for the same time period. In the comparative periods, $30.8 million or 80% and $7.5 million or 20%, 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 YE 2016, revenue from the Lessor Interests was $158.9 million or 79% of total royalty revenue. Revenue from GORR Interests was $42.5 million or 21% of total royalty revenue for the same time period. In the comparative periods, $140.2 million or 83% and $28.3 million or 17%, 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 Q4 2016, the Company averaged realized crude oil prices of $52.09 per bbl, NGL prices of $24.14 per bbl and natural gas prices of $2.27 per Mcf. Prices for crude oil and NGL were up from Q4 2015 when the Company averaged realized crude oil prices of $40.74 per bbl and NGL prices of $22.65 per bbl. Realized natural gas pricing decreased in Q4 2016 from Q4 2015 notwithstanding AECO benchmark pricing recovering during that same period due to increased natural gas production in British Columbia and the Deep Basin of Alberta which realized lower pricing, combined with the effect of prior period adjustments on current period realized pricing.

YE 2016, the Company averaged realized crude oil prices of $44.22 per bbl, NGL prices of $22.01 per bbl and natural gas prices of $1.65 per Mcf. Prices for all products were down from YE 2015 when the Company averaged realized crude oil prices of $47.80 per bbl, NGL prices of $23.01 per bbl and natural gas prices of $2.67 per mcf. Overall, commodity prices remained low throughout the year due to global supply and demand imbalances. In 2016, PrairieSky realized a lower natural gas price as compared to AECO due to increased production in British Columbia and the Deep Basin of Alberta which realized lower natural gas pricing.

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 months and year ended December 31, 2016, the Company collected $3.4 million and $8.3 million, respectively, in compliance recoveries.

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 Q4 2016 and YE 2016 was $2.4 million (Q4 2015 - $1.3 million) and $12.4 million (YE 2015 - $33.3 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 December 31		Year ended December 31	
($ millions)	**2016**	**2015**	**2016**	**2015**
Salaries and Benefits	**$ 3.3**	$ 3.0	**$ 14.2**	$ 13.9
Share-Based Compensation	**4.4**	0.6	**10.2**	4.7
Office Expense	**0.7**	1.7	**4.5**	4.8
Public Company Expense	**0.2**	0.2	**1.0**	1.2
Information Technology and Other	**0.5**	0.5	**2.1**	1.8
Transaction Costs	**0.2**	0.7	**0.2**	0.7
Total Administrative Expense	**$ 9.3**	$ 6.7	**$ 32.2**	$ 27.1

	Three months ended December 31, 2016		Three months ended December 31, 2015	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Administrative – cash	**$ 4.9**	**$ 2.22**	$ 6.4	$ 3.94
Administrative – non-cash	**4.4**	**2.00**	0.3	0.19
Total Administrative Expense	**$ 9.3**	**$ 4.22**	$ 6.7	$ 4.13

	Year ended December 31, 2016		Year ended December 31, 2015	
	($ millions)	**($/BOE)**	**($ millions)**	**($/BOE)**
Administrative – cash	**$ 23.7**	**$ 2.78**	$ 23.4	$ 3.72
Administrative – non-cash	**8.5**	**0.99**	3.7	0.59
Total Administrative Expense	**$ 32.2**	**$ 3.77**	$ 27.1	$ 4.31

PrairieSky is committed to cost control in its business. Administrative expense for Q4 2016 and YE 2016 was $4.22 per BOE (Q4 2015 - $4.13 per BOE) and $3.77 per BOE (YE 2015 - $4.31 per BOE), respectively. Administrative expense includes 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 Q4 2016 and YE 2016 periods includes $nil (Q4 2015 - $0.1 million) and $1.3 million (YE 2015 - $1.7 million) related to non-recurring severance costs, respectively.

Of the total share-based compensation for Q4 2016, $0.3 million (Q4 2015 - $0.3 million) related to the stock option plan and there was $3.7 million of expense (Q4 2015 - $0.4 million) related to the restricted share unit ("RSU") and performance share unit ("PSU") plans. The Company recorded $0.4 million of expense (Q4 2015 - recovery of $0.1 million) related to the Company's Deferred Share Unit ("DSU") plan. The majority of Directors elected to receive annual Board of Directors ("Board") and Committee retainers and fees in the form of DSUs.

Of the total share-based compensation for YE 2016, $1.2 million (YE 2015 - $1.3 million) related to the stock option plan and there was $7.6 million of expense (YE 2015 - $3.1 million) related to the RSU and PSU plans. The Company recorded $1.4 million (YE 2015 - $0.3 million) related to the Company's DSU plan.

Share-based compensation expense increased in Q4 2016 and YE 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 as well as a 46% increase in the common share price between 2015 and 2016. Total outstanding units and options from all employee incentive plans is less than 1% of total shares outstanding at December 31, 2016.

PRODUCTION AND MINERAL TAXES

	Three months ended December 31		Year ended December 31	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Production and Mineral Taxes	**$ 2.4**	$ 1.9	**$ 5.7**	$ 8.5
$/BOE	**$ 1.09**	$ 1.17	**$ 0.67**	$ 1.35

Production and mineral tax is levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. Throughout the period, it is impacted by production estimates and prices. For Q4 2016 and YE 2016, production and mineral taxes, which includes Alberta freehold mineral tax and Saskatchewan acreage tax, averaged approximately 4% and 3% 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 lands 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 December 31		Year ended December 31	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Depletion, Depreciation and Amortization	**$ 39.9**	$ 25.4	**$ 162.5**	$ 96.3
$/BOE	**$ 18.09**	$ 15.64	**$ 19.05**	$ 15.32

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 Q4 2016 and YE 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 December 31		Year ended December 31	
($ millions, except per BOE amounts)	**2016**	**2015**	**2016**	**2015**
Exploration and Evaluation Expense	**$ 0.8**	$ 0.9	**$ 6.2**	$ 2.2
$/BOE	**$ 0.36**	$ 0.55	**$ 0.73**	$ 0.34

During Q4 2016 and YE 2016, $0.8 million (Q4 2015 - $0.9 million) and $6.2 million (YE 2015 - $2.2 million), respectively, 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, except per share data)	Three months ended December 31 2016	2015	Year ended December 31 2016	2015
Finance Income	**$ (0.3)**	$ (0.7)	**$ (2.1)**	$ (1.8)
Finance Expense	**-**	0.1	**0.2**	0.6
Net Finance Expense	**(0.3)**	$ (0.6)	**(1.9)**	$ (1.2)

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 Q4 2016 and YE 2016 decreased from the comparable periods in 2015 due to the reduced standby fees associated with the voluntary reduction to the Credit Facility completed in Q2 2016. Finance income decreased 57% from Q4 2015 to Q4 2016, a result of acquisitions completed for cash consideration in the current quarter and the resulting lower cash balance on deposit. There was an increase of 17% in YE 2016 compared to YE 2015 as a result of the increased cash balance held during the majority of fiscal 2016 arising from the common share financing completed in July 2015.

INCOME TAX

($ millions, except per share data)	Three months ended December 31 2016	2015	Year ended December 31 2016	2015
Current Tax Recovery	**$ -**	$ (23.0)	**$ -**	$ (7.3)
Deferred Tax Expense (recovery)	**(0.3)**	25.6	**(0.5)**	26.5
Income Tax Expense	**(0.3)**	$ 2.6	**(0.5)**	$ 19.2

For the year ended December 31, 2016, the Company was not cash taxable and recorded a $0.5 million recovery. PrairieSky's effective tax rate was approximately 23% for YE 2015. 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. The Company has no current tax payable at December 31, 2016.

The approximate tax pools balances available at year end are:

(millions)	Year ended December 31, 2016	Year ended December 31, 2015
Canadian oil and gas property expense ("COGPE")	**$ 1,447.6**	$ 1,526.7
Canadian development expense ("CDE")	**0.2**	0.3
Canadian exploration expense ("CEE")	**-**	16.5
Undepreciated capital cost ("UCC")	**0.8**	1.1
Non-capital loss carryforwards	**1.8**	2.8
Share issue costs	**5.6**	7.4
	$ 1,456.0	$ 1,554.8

Subsequent to December 31, 2016, PrairieSky closed its $250 million Lindbergh 4% GORR acquisition. The acquisition provided an additional $250 million of tax pools, including $225 million of COGPE and $25 million of CEE.

NET EARNINGS

Net earnings for Q4 2016 and YE 2016 were $16.1 million ($0.07 per share, basic and diluted) and $20.0 million ($0.09 per share, basic and diluted), respectively, compared to $8.0 million for Q4 2015 ($0.05 per share, basic and diluted) and $63.0 million for YE 2015 ($0.40 per share, basic and diluted). Net earnings increased by $8.1 million during Q4 2016 compared to Q4 2015 as a result of increased royalty revenues offsetting higher depletion costs for the quarter. The decrease in net earnings for YE 2016 compared to the same period in 2015 is due to higher depletion expense subsequent to the Transaction, which offset the higher royalty revenues recorded during the year. YE 2016 net earnings also included $12.4 million in bonus consideration compared to $33.3 million in the YE 2015 period which illustrates the variability of this revenue stream.

ACQUISITIONS

During Q4 2016, the Company recorded acquisitions totaling $112.2 million (Q4 2015 - $1,463.2 million) comprised of royalty assets of $43.7 million (Q4 2015 - $440.9 million) and E&E assets of $68.5 million (Q4 2015 - $1,022.3 million).

Included in the Q4 2016 acquisitions noted above is the corporate acquisition of a private company. The corporate acquisition added $20.6 million in royalty assets, $27.8 million in E&E assets, $17.8 million in goodwill, $0.4 million in working capital, in addition to $12.5 million in deferred tax liability. Total consideration for the corporate acquisition was $54.1 million after considering closing adjustments. For additional information, see the “Results Overview” section of this MD&A.

During YE 2016, the Company recorded acquisitions totaling $144.8 million (YE 2015 - $1,525.1 million) comprised of royalty assets of $65.8 million (YE 2015 - $480.2 million) and E&E assets of $79.0 million (YE 2015 - $1,044.9 million). During YE 2016, the Company collected $14.5 million in receivables and paid $2.7 million related to the final settlement of adjustments, resulting in an $11.8 million cash inflow from the Transaction during 2016.

Included in the YE 2015 acquisition noted above is the Transaction, whereby PrairieSky acquired certain royalty assets from Canadian Natural. The Transaction added $435.3 million in royalty assets and $1,016.7 million in E&E assets, in addition to $276.4 million in goodwill and $68.0 million in deferred tax liability. Total consideration for the Transaction was $1,660.4 million, with $984.9 million in share consideration and $675.5 million in cash consideration after closing adjustments.

The value of assets received in lieu of cash bonus consideration for Q4 2016 and YE 2016 were $nil and $0.2 million, respectively. In Q4 and YE 2015, $nil and $15.7 million of assets were received in lieu of cash bonus consideration.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended December 31		Year ended December 31	
($ millions)	**2016**	**2015**	**2016**	**2015**
Net Cash From (Used In)				
Operating Activities	**$ 58.2**	$ 43.3	**$ 204.6**	$ 168.1
Investing Activities	**(132.6)**	(696.0)	**(153.8)**	(741.7)
Financing Activities	**(51.0)**	639.7	**(207.6)**	701.3
Increase (Decrease) in Cash and Cash Equivalents	**(125.4)**	(13.0)	**(156.8)**	127.7
Cash and Cash Equivalents, End of Period	**$ 34.0**	$ 190.8	**$ 34.0**	$ 190.8

OPERATING ACTIVITIES

Net cash from operating activities for Q4 2016 and YE 2016 was $58.2 million and $204.6 million, respectively, compared to $43.3 million and $168.1 million for the comparable periods in 2015. The net change in non-cash working capital for Q4 2016 was a decrease of $3.6 million (Q4 2015 - decrease of $16.7 million). For YE 2016, the net change in non-cash working capital was an increase of $4.4 million (YE 2015 - decrease of $9.7 million). YE 2016 cash flow from operating activities was reduced by $0.2 million (YE 2015 - $16.4 million) of non-monetary bonus consideration and $nil (YE 2015 - $1.0 million) of non-performance fee revenue.

The Company had positive working capital of $44.2 million as at December 31, 2016. At December 31, 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 December 31, 2016, working capital included cash of $34.0 million. The decrease in cash at December 31, 2016 compared to December 31, 2015 is a result of the acquisitions noted in the "Acquisitions" section of this MD&A.

INVESTING ACTIVITIES

For Q4 2016 and YE 2016, cash used in investing activities was $132.6 million (Q4 2015 - $696.0 million) and $153.8 million (YE 2015 - $741.7 million) including royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A of $117.8 million and $150.2 million, respectively. During Q4 2016, the Company paid a $15.0 million deposit for a 4% GORR on the Lindbergh SAGD thermal oil project which closed on January 6, 2017. In addition, there was a cash inflow YE 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 Q4 2016 and YE 2016, cash used in financing activities was $51.0 million (Q4 2015 - cash from financing activities of $639.7 million) and $207.6 million (YE 2015 - cash from financing activities of $701.3 million), respectively, related primarily to dividend payments. The dividends paid in Q4 2016 and YE 2016 were higher than in the same periods in the prior year as a result of the additional shares issued as partial consideration for the Transaction in December 2015. In addition, the Company repurchased $9.9 million in common shares under the NCIB in Q4 2016 (YE 2016 - $26.0 million) as described below. There were no common shares repurchased during 2015.

The significant increase in cash from financing activities for both the Q4 2015 and YE 2015 periods is related to the July 7, 2015 financing whereby $189.5 million net proceeds were received from a bought deal prospectus offering of 6.3 million common shares. On December 2, 2015, the Company raised $678.8 million from a private placement of approximately 27.0 million common shares, the proceeds of which were used as consideration for the Transaction as detailed under the "Acquisitions" section of this MD&A.

Credit Facility

On May 18, 2016, the Company elected to voluntarily eliminate its $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 $25 million extendible operating Credit facility (the "Credit Facility"). The Credit Facility 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. The Credit Facility maturity date is May 29, 2018. As at December 31, 2016, the Credit Facility was undrawn.

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 Q4 2016. On February 29, 2016, the Company announced that the Board had adjusted the monthly dividend from $0.10833 per common share or $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 December 15, 2016, the Board declared a dividend of $0.06 per common share, paid on January 16, 2017, to shareholders of record on December 30, 2016. On February 27, 2017, the Company announced that the Board had increased the monthly dividend 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.

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 December 31, 2016, PrairieSky had 228.0 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 February 27, 2017, common shares outstanding increased to 237.1 million, as a result of the prospectus offering of 9.2 million common shares completed on January 6, 2017, offset by common shares repurchased and cancelled as administrated through 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, 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 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 1.6 million common shares over the twelve-month period commencing on May 2, 2016. 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 Q4 2016, the Company purchased for cancellation 327,000 common shares (2015 - nil) at a weighted average price of $30.01 per common share including commissions for total consideration of $9.9 million. YE 2016, the Company purchased for cancellation 960,000 common shares (2015 - nil) at a weighted average price of $27.04 per common share including commissions for total consideration of $26.0 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 $13.0 million (2015 - $nil) was charged to the deficit.

COMMITMENTS

CONTRACTUAL COMMITMENTS

($ millions)	Expected Future Payments						
(undiscounted)	**2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
Office lease commitments	**$ 1.4**	**$ 1.4**	**$ 1.3**	**$ 1.3**	**$ 1.5**	**$ 3.2**	**$ 10.1**

The Company has in place three royalty acquisition agreements with unrelated parties. The agreements expire on August 1, 2017, July 31, 2018 and December 31, 2018 with remaining commitments, subject to numerous conditions, of $2.3 million, $4.9 million, and $2.7 million, respectively.

SUBSEQUENT EVENTS

On January 6, 2017, the Company completed its previously announced 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. A cash deposit of $15.0 million was paid upon execution of the agreement on December 14, 2016.

On January 6, 2017, the Company also completed a bought deal offering of common shares (the “Offering”). Pursuant to the Offering, the Company issued 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 shares, for aggregate gross proceeds of approximately $288.9 million and net proceeds, after fees and expenses, of approximately $276.8 million.

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 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 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 December 31, 2016, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance due to the timing of payments received at the end of the year. 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 December 31, 2016, the Company had working capital of $44.2 million including cash of $34.0 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 $19.4 million and dividend payable of $13.7 million is less than one year. Included in accounts payable and accrued liabilities is $2.1 million related to vested cash settled share unit awards which may or may not be paid in the next 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 27, 2017 which is available at PrairieSky's SEDAR profile at www.sedar.com.

ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

Management is required to make judgments, estimates, and assumptions through the application of the Company's accounting policies and practices, which have a significant impact on the financial results. A summary of PrairieSky's significant accounting policies can be found in Note 3 to the audited annual consolidated financial statements. The following discussion outlines the accounting policies and practices involving the use of judgments and estimates that are critical to determining PrairieSky's financial results.

Critical judgments are those judgments made by Management in the process of applying the Company's accounting policies and that have the most significant impact on the amounts recognized in the audited annual consolidated financial statements.

Significant estimates primarily relate to fair value estimates and unsettled transactions and events as at the date of the financial statements and accordingly, actual results could differ from the estimates.

Identification of CGUs

The identification of cash generating units ("CGUs") requires judgment. CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets into CGUs requires judgment and interpretation. Factors considered in the classification include how management monitors the entity's operations, how management makes decisions about continuing or disposing of assets and operations, and the nature of the assets. Upon assessment of the Royalty Assets, the Company determined it has one CGU.

Impairment of Royalty Assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required with respect to the carrying value of long-lived assets. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future crude oil and natural gas prices, future costs, discount rates, cash flow multiples, market value of land and other relevant assumptions.

Exploration & Evaluation Assets

The application of the Company's accounting policy to transfer assets from E&E to royalty assets or to expense capitalized E&E assets requires management to make certain judgments based on the estimated proved and probable reserves used in the determination of an area's technical feasibility and commercial viability.

Business Combinations

Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3, "Business Combinations". Business combinations are accounted for using the acquisition method of accounting and are differentiated from an asset acquisition when business processes are associated with the assets.

Reserve Estimates, Depletion and Impairments

Reserve estimates can have a significant impact on net earnings, as they are a key input to DD&A calculations and impairment tests. Costs accumulated within each area are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. A downward revision in reserve estimates could result in the recognition of a higher DD&A charge to net earnings in future periods. Reserve estimates are also used to determine the fair value of royalty assets that are acquired through asset acquisitions and business combinations.

All of PrairieSky's oil and gas reserves are evaluated and reported on by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and future costs, all of which are subject to numerous uncertainties and various interpretations. Accordingly, the impact of changes in reserves estimates on the Company's consolidated financial statements could be material.

PrairieSky's royalty assets relating to crude oil, NGL and natural gas plus other mineral rights and E&E are aggregated into one CGU. If the carrying value of the CGU exceeds the recoverable amount, the CGU is written down with an impairment recognized in net earnings. The recoverable amount of the CGU is the greater of its fair value less costs of disposal and its value in use. Fair value less costs of disposal is estimated using cash flow multiples from production of same or similar assets. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from continued use of the CGU.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings.

Fair Values in Business Combinations

Business combinations within the scope of IFRS 3 are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value and the tax basis of net assets acquired. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill.

Oil and Gas Revenue Accruals and Royalty Interests

PrairieSky follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of royalty revenues, production and related expenses for the period being reported for which actual results have not yet been received. The Company has no operational control over the Royalty Properties and as a result, the Company uses historical production information to estimate revenue accruals. These accrual estimates are expected to be revised, based on the receipt of actual production results and realized prices.

Share-Based Compensation

The Company's long term incentive plans include a Stock Option Plan and share unit award plans (RSU, PSU and DSU plans). Obligations for payments of cash or common shares under the Company's long term incentive plans are accrued over the vesting period using fair values.

For the equity-settled Stock Option Plan, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding increase to contributed surplus. When the awards are exercised, the associated contributed surplus is recognized in shareholders' capital. The Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest.

For share unit awards, fair values are determined at grant date and subsequently revalued at each reporting date based on the market value of the Company's common shares and are recognized over the vesting period as compensation costs, with a corresponding change to liabilities. The valuation incorporates the period-end share price, dividends declared during the period, the number of units outstanding at each period end and certain management estimates, such as estimated forfeiture rates and a performance multiplier for PSUs. Classification of the associated short-term and long-term liabilities is dependent on the expected payout dates. Judgment is also required to estimate the number of RSUs and PSUs that will ultimately vest.

Goodwill

Upon acquisition, goodwill is attributed to the applicable CGU that is expected to benefit from the business combination's synergies. This represents the lowest level that goodwill is monitored for internal management purposes. Subsequent measurement of goodwill is at cost less any accumulated impairments.

Goodwill is assessed for impairment at least annually. If the carrying amount for the CGU exceeds the recoverable amount of the CGU, the associated goodwill is written down with an impairment recognized in net earnings. The recoverable amounts are determined annually based on the greater of fair value less costs of disposal or value in use. Fair value less costs of disposal is estimated for the CGU using cash flow multiples from production of same or similar assets. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the CGU. Goodwill impairments are not reversed.

Income Taxes

Income tax is recognized in net earnings except for items directly related to shareholders' equity, in which case it is recognized in shareholders' equity or other comprehensive income. Current income taxes are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recorded for the effect of any temporary difference between the accounting and income tax basis of an asset or liability.

Deferred income tax is calculated using the enacted or substantively enacted income tax rates expected to apply when the assets are realized or liabilities are settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings or in shareholders' equity depending on the item to which the adjustment relates.

Deferred income tax liabilities and assets are not recognized for temporary differences arising on:

- the initial recognition of goodwill; or
- the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting net earnings nor taxable earnings.

Deferred income tax assets are recognized to the extent future recovery is probable. Deferred income tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

RECENT ACCOUNTING PRONOUNCEMENTS

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.

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 consolidated 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, with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been adopted. 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 consolidated 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 at least quarterly with the Company's external auditors to review accounting, internal control, financial reporting, and audit matters.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information to be disclosed by PrairieSky 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 ("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 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 DC&P are believed to provide reasonable, but not absolute, assurance that the objectives of the control system are met. The CEO and CFO of PrairieSky evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that PrairieSky's DC&P were effective as at December 31, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO are responsible for establishing and maintaining internal controls over financial reporting ("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 consolidated financial statements for external purposes in accordance with IFRS. 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 to PrairieSky's ICFR during the period beginning on January 1, 2016 to December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated Internal Control - Integrated Framework ("2013 Framework") replacing the Internal Control - Integrated Framework (1992). PrairieSky conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2016 based on the 2013 Framework. Based on this evaluation, the officers concluded that as of December 31, 2016, PrairieSky maintained effective ICFR.

SELECTED ANNUAL INFORMATION

($ millions, except per share)	2014[1]	2015	2016
Revenues	$ 198.7	$ 215.0	**$ 224.2**
Net Earnings and Comprehensive Income	136.3	63.0	**20.0**
Per Share – basic and diluted[1]	1.75	0.40	**0.09**
Total Assets	1,119.0	2,938.2	**2,770.3**
Dividends Declared	98.3	206.5	**186.7**
Per Share	0.7406	1.3000	**0.8167**

(1) For the period from May 27, 2014 to December 31, 2014. The Company was incorporated on November 27, 2013 and commenced operations on May 27, 2014. Basic and diluted weighted average common shares are based on the twelve-month period ended December 31, 2014.

In the past three years, PrairieSky has been able to consistently increase its royalty production volumes through third party operations on the Royalty Properties as well as completing accretive acquisitions which are complementary to PrairieSky's business. Over the three years, while production volumes have increased, fluctuations in realized commodity prices have impacted the Company's royalty revenue. Net earnings has fluctuated due to changes in revenues, as well as increased depletion due to the asset growth in 2014 and 2015. This large increase in the asset base in 2015 relates to the Transaction, whereby PrairieSky acquired certain royalty assets from Canadian Natural on December 16, 2015.

Dividends declared in 2015 increased from 2014 as a result of a full year of dividend payments being declared in the Company's first full fiscal period. Dividends declared decreased in 2016 as a result of the reduction in the dividend based on the annual review by the Board in February 2016.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

($ millions, unless otherwise noted)	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
FINANCIAL								
Revenues	**$ 54.4**	**$ 71.8**	**$ 44.0**	**$ 44.8**	**$ 48.9**	**$ 48.1**	**$ 59.3**	**$ 67.9**
Funds from Operations[1]	**37.7**	**43.6**	**36.5**	**60.0**	**41.4**	**42.8**	**54.2**	**61.8**
Per Share – basic and diluted[2]	**0.25**	**0.29**	**0.23**	**0.36**	**0.18**	**0.19**	**0.24**	**0.27**
Net Earnings (Loss) and Comprehensive Income (Loss)	**16.8**	**24.1**	**14.1**	**8.0**	**1.7**	**(5.7)**	**7.9**	**16.1**
Per Share – basic and diluted[2]	**0.11**	**0.16**	**0.09**	**0.05**	**0.01**	**(0.02)**	**0.03**	**0.07**
Dividends declared[3]	**48.5**	**48.6**	**50.8**	**58.6**	**63.3**	**41.2**	**41.1**	**41.1**
Per Share	**0.3250**	**0.3250**	**0.3250**	**0.3250**	**0.2767**	**0.1800**	**0.1800**	**0.1800**
Working Capital	**56.9**	**22.6**	**203.4**	**211.5**	**202.5**	**171.1**	**168.1**	**44.2**
OPERATIONAL								
Production Volumes								
Natural Gas (MMcf/d)	**62.5**	**59.5**	**59.5**	**62.2**	**70.7**	**75.3**	**74.8**	**78.2**
Crude Oil (bbls/d)	**5,968**	**5,751**	**4,800**	**5,432**	**8,748**	**8,213**	**8,278**	**8,583**
NGL (bbls/d)	**1,666**	**1,537**	**1,309**	**1,852**	**2,550**	**2,395**	**2,305**	**2,362**
Total (BOE/d)	**18,051**	**17,205**	**16,026**	**17,651**	**23,081**	**23,158**	**23,050**	**23,978**

(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 December 15, 2016. The dividend was paid on January 16, 2017 to shareholders of record on December 30, 2016.

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 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$48.64 per bbl in Q4 2016 has increased 17% from US$41.71 per bbl in Q4 2015.
- The AECO quarterly average of $2.82 per mcf in Q4 2016 has increased 6% from $2.65 per mcf in Q4 2015.
- Average realized NGL price of $24.14 per bbl in Q4 2016 has increased 7% from $22.65 per bbl in Q4 2015.
- Average total realized price of $28.47 per BOE in Q4 2016 has increased 21% from $23.59 per BOE in Q4 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. Q4 2016 revenues increased as a result of increased production combined with improved commodity pricing and total realized pricing of $28.47 as compared to $24.62 in Q3 2016.

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 YE 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 royalty revenues as a result of the low commodity price environment. Q4 2016 net earnings increased due to the increase in royalty revenues noted above.

Dividends declared in Q4 2015 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.

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 Q4 2016 as a result of acquisitions for cash consideration made during the period.

Production increased 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.

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 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 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 acquisitions and meet the intention of the Company to distribute cash flow on an ongoing basis to shareholders as dividends and/or to repurchase common shares under the Company's NCIB. 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 December 31, 2016		Three months ended December 31, 2015	
	($ millions)	($/BOE)	($ millions)	($/BOE)
Cash From Operating Activities	**$ 58.2**	**$ 26.38**	$ 43.3	$ 26.66
Add back:				
Net Change in Non-cash Working Capital	**3.6**	**1.63**	16.7	10.29
Funds From Operations	**$ 61.8**	**$ 28.01**	$ 60.0	$ 36.95

	Year ended December 31, 2016		Year ended December 31, 2015	
	($ millions)	($/BOE)	($ millions)	($/BOE)
Cash from Operating Activities	**$ 204.6**	**$ 23.98**	$ 168.1	$ 26.74
Add back (deduct):				
Net Change in Non-cash Working Capital	**(4.4)**	**(0.51)**	9.7	1.54
Funds From Operations	**$ 200.2**	**$ 23.47**	$ 177.8	$ 28.28

FUNDS FROM OPERATIONS PER SHARE CALCULATIONS – BASIC AND DILUTED

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

	Three months ended December 31		Year ended December 31	
($ millions, except per share data)	2016	2015	2016	2015
Funds from Operations	**$ 61.8**	$ 60.0	**$ 200.2**	$ 177.8
Number of common shares:				
Weighted average common shares outstanding – basic	**228.2**	168.2	**228.6**	155.7
Effect of dilutive securities	**0.3**	0.2	**0.2**	0.3
Weighted average common shares outstanding – diluted	**228.5**	168.4	**228.8**	156.0
Funds from Operations per Share				
Basic	**$ 0.27**	$ 0.36	**$ 0.88**	$ 1.14
Diluted	**$ 0.27**	$ 0.36	**$ 0.88**	$ 1.14

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at December 31, 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;
- average production and contribution from the Royalty Properties; and
- PrairieSky's cash taxability in 2017 and anticipated taxability for future periods.

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

All information included in this MD&A, and the audited annual 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

Additional information about PrairieSky, including the 2016 audited annual consolidated 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.