MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

TSX: PSK

HIGH MARGINS
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PRAIRIESKY
ROYALTY LTD

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 ("interim condensed consolidated financial statements") and the audited consolidated financial statements and related notes as at and for the years ended December 31, 2018 and 2017. This MD&A has been prepared as of October 28, 2019.

The unaudited interim condensed consolidated financial statements and comparative information have been prepared in Canadian dollars and in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). PrairieSky receives royalty income on production; as such, the production volumes are equivalent on a gross and net basis.

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

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

Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, oil, natural gas 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 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
FINANCIAL				
Revenues	**$ 58.8**	$ 78.1	**$ 201.3**	$ 222.2
Funds from Operations	**48.8**	67.0	**164.6**	181.2
Per Share - basic[(1)(2)]	**0.21**	0.29	**0.70**	0.77
Per Share - diluted[(1)(2)]	**0.21**	0.28	**0.70**	0.77
Net Earnings and Comprehensive Income	**16.7**	28.5	**87.1**	73.4
Per Share - basic and diluted[(1)]	**0.07**	0.12	**0.37**	0.31
Dividends declared[(3)]	**45.5**	45.8	**136.7**	136.4
Per Share	**0.1950**	0.1950	**0.5850**	0.5800
Acquisitions, including non-cash consideration	**5.2**	19.5	**7.8**	44.9
Working Capital (Deficiency) at period end	**(7.4)**	10.6	**(7.4)**	10.6
Shares outstanding				
Shares outstanding at period end	**233.3**	234.7	**233.3**	234.7
Weighted average - basic	**233.4**	235.0	**233.7**	235.4
Weighted average - diluted	**233.8**	235.3	**234.1**	235.7
OPERATIONAL				
Royalty Production Volumes				
Crude Oil (bbls/d)	**8,011**	9,018	**8,548**	8,950
NGL (bbls/d)	**2,334**	2,503	**2,536**	2,391
Natural Gas (MMcf/d)	**61.0**	71.5	**63.1**	71.8
Royalty Production (BOE/d)[(4)]	**20,512**	23,438	**21,601**	23,308
Realized Pricing				
Crude Oil ($/bbl)	**59.04**	66.68	**60.79**	64.12
NGL ($/bbl)	**20.23**	37.32	**28.81**	39.17
Natural Gas ($/Mcf)	**0.72**	1.15	**1.14**	1.19
Total ($/BOE)[(4)]	**27.50**	33.11	**30.78**	32.31
Operating Netback per BOE[(2)]	**$ 23.31**	$ 30.47	**$ 26.73**	$ 29.23
Funds from Operations per BOE	**$ 25.86**	$ 31.07	**$ 27.91**	$ 28.48
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**56.50**	68.81	**57.07**	66.29
Edmonton Light Sweet ($/bbl)	**68.48**	77.15	**69.62**	75.57
Western Canadian Select (WCS) crude oil differential to WTI (US$/bbl)	**(12.24)**	(22.20)	**(11.74)**	(21.92)
Natural Gas Price Benchmark				
AECO monthly index ($/Mcf)	**1.05**	1.35	**1.39**	1.41
AECO daily index ($/Mcf)	**0.89**	1.19	**1.52**	1.48
Foreign Exchange Rate (US$/CAD$)	**0.7564**	0.7683	**0.7525**	0.7768

(1) Net Earnings and Comprehensive Income and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.
(2) Funds from Operations per Share and Operating Netback per BOE are defined under the Non-GAAP Measures section in this MD&A.
(3) A dividend of $0.065 per common share was declared on September 10, 2019. The dividend was paid on October 15, 2019 to shareholders of record as at September 30, 2019.
(4) See "Conversions of Natural Gas to BOE".

RESULTS OVERVIEW

HIGHLIGHTS

Highlights of PrairieSky's financial results for the three-month period ended September 30, 2019 ("Q3 2019") include:

- Revenues totaled $58.8 million, consisting of $51.9 million of royalty production revenue, $1.2 million of lease rental income, $4.4 million of bonus consideration and $1.3 million of other income.
- Funds from operations totaled $48.8 million ($0.21 per share basic and diluted).
- Royalty production averaged 20,512 BOE per day (50% liquids) consisting of average crude oil royalty production volumes of 8,011 bbls per day, average NGL royalty production volumes of 2,334 bbls per day and average natural gas royalty production volumes of 61.0 MMcf per day.
- Dividends declared of $45.5 million ($0.1950 per share).
- Purchased for cancellation 0.2 million common shares at a weighted average price of $17.54 per common share for total consideration of $4.2 million under the normal course issuer bid ("NCIB").

Highlights of PrairieSky's financial results for the nine-month period ended September 30, 2019 ("YTD 2019") include:

- Revenues totaled $201.3 million, consisting of $181.5 million of royalty production revenue, $5.0 million of lease rental income, $10.7 million of bonus consideration and $4.1 million of other income.
- Funds from operations totaled $164.6 million ($0.70 per share basic and diluted).
- Royalty production averaged 21,601 BOE per day (51% liquids) consisting of average crude oil royalty production volumes of 8,548 bbls per day, average NGL royalty production volumes of 2,536 bbls per day and average natural gas royalty production volumes of 63.1 MMcf per day.
- Dividends declared of $136.7 million ($0.5850 per share).
- Purchased for cancellation 0.9 million common shares at a weighted average price of $18.38 per common share for total consideration of $16.2 million under the NCIB.
- Effective July 1, 2019, the Alberta corporate income tax rate was reduced to 11% with further reductions of 1% effective for each year commencing January 1, 2020, 2021 and 2022, bringing the rate to 8%. These rate reductions have resulted in an income tax rate change recovery of $24.4 million and reduction in the deferred tax liability during the YTD period.

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 7.8 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 and growing our royalty ownership by 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 production revenues as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of Alberta, Saskatchewan, British Columbia and Manitoba.

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

PrairieSky receives royalty production revenue from over 38,000 wells and receives payments from approximately 325 different industry payors. The Company receives approximately 75% of its monthly revenue from 32 payors. Royalties are calculated on a fixed percentage, step or sliding scale formula. Some royalty agreements allow for the deduction of certain costs. The average royalty rate for Q3 2019 was approximately 6.0%.

Petroleum and natural gas royalty structures are typically linked directly to production volumes from the lands, with certain royalty structures linked to production volumes and/or 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 field operations, 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 does not bear the operational or financial risks of drilling, completing or operating wells and related infrastructure. The Company is not responsible for site restoration and abandonment costs. Capital, operational and abandonment costs are the responsibility of the third parties conducting operations on the Royalty Properties. Substantially all the capital expenditures made by PrairieSky are discretionary.

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

Management's discussion and analysis for this reporting period focuses on the three and nine-month periods ended September 30, 2019.

PRAIRIESKY'S 2019 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 Canadian oil and natural gas sector continues to experience headwinds. Benchmark WTI pricing has declined YTD 2019. This decline has been partially offset by narrowed differentials for light and heavy crude oil in the first nine months of 2019 as compared the first nine months of 2018 and to the three-month period ended December 2018. This is primarily due to the Alberta Government's mandated curtailment of Alberta crude oil production which positively impacted crude oil pricing across Western Canada. At the same time, weak AECO pricing continues to negatively impact natural gas producers and activity across Western Canada. Liquids-rich natural gas producers have been further impacted by lower pricing for the 2019-2020 NGL contract year. The challenging commodity price environment combined with takeaway capacity constraints and limited access to capital have resulted in operators taking a measured approach to capital budgets and spending, which are expected to reach a decade low for the full year 2019. This has negatively impacted the Company's royalty production volumes and funds from operations in 2019 and may have further impacts into 2020. The new Alberta provincial government has enacted lower corporate tax rates effective July 1, 2019, provided property tax relief for shallow natural gas operators and is expected to make changes to the regulatory framework, all of which are anticipated to improve the competitiveness of the province with other jurisdictions. 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 controllable costs and a disciplined approach to acquisitions. PrairieSky maintains a strong balance sheet and continues to employ a conservative capital structure.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third-party guidance for anticipated capital expenditures during 2019 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's diversity in crude oil and natural gas plays and payors, along with an active royalty compliance program, assists in reducing collection and credit risk. The Company takes certain royalty production 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 crude oil and natural gas investment at relatively low risk and low cost to the Company. The Company seeks to achieve this objective by: (i) focusing on leasing activity and organic growth of royalty production 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); (iii) managing controllable costs; and (iv) 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 repurchases and cancellations over time.

ROYALTY PRODUCTION

ROYALTY PRODUCTION VOLUMES

	Three months ended September 30		Nine months ended September 30	
(Average daily)	2019	2018	2019	2018
Crude Oil (bbls/d)	**8,011**	9,018	**8,548**	8,950
NGL (bbls/d)	**2,334**	2,503	**2,536**	2,391
Natural Gas (MMcf/d)	**61.0**	71.5	**63.1**	71.8
Total Royalty Production (BOE/d)	**20,512**	23,438	**21,601**	23,308

PrairieSky's average daily royalty production volumes for Q3 2019 were 39% crude oil, 11% NGL and 50% natural gas as compared to the three-month period ended September 30, 2018 ("Q3 2018") when the production volume split was 38% crude oil, 11% NGL and 51% natural gas. The average daily royalty production volume split for YTD 2019 was 40% oil, 12% NGL and 48% natural gas as compared to the nine-month period ended September 30, 2018 ("YTD 2018") when the average daily royalty production volume split was 38% oil, 10% NGL and 52% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this delay, positive and negative adjustments related to prior periods may be included in PrairieSky's royalty production volumes and/or revenue. In addition, collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to 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.

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

For the three months ended September 30, 2019

Crude oil royalty production volumes for Q3 2019 of 8,011 bbls per day have decreased 11% from 9,018 bbls per day reported in Q3 2018 as volumes were negatively impacted by lower activity through spring break up and a reduction in overall drilling and workover activity in Western Canada. Q3 2019 was impacted by positive volume adjustments from prior periods; however, Q3 2018 crude oil volumes included additional compliance recoveries and positive adjustments that were not repeated in Q3 2019.

NGL royalty production volumes for Q3 2019 of 2,334 bbls per day have decreased 7% from 2,503 bbls per day reported in Q3 2018. Q3 2018 NGL royalty production volumes were impacted by compliance recoveries and positive adjustments that were not repeated in Q3 2019 which combined with natural declines and operational downtime to offset royalty production volumes from new drilling on the Royalty Properties.

Natural gas royalty production volumes for Q3 2019 of 61.0 MMcf per day were 15% lower than the 71.5 MMcf per day reported in Q3 2018 as royalty production volumes from new drilling on the Royalty Properties was offset by natural declines and operational downtime. There has been limited drilling and workover activity across Western Canada due to challenging natural gas pricing resulting in natural gas royalty production declines. Q3 2019 was impacted by positive volume adjustments from prior periods; however, Q3 2018 natural gas royalty production volumes included additional compliance recoveries and positive adjustments that were not repeated in Q3 2019.

For the nine months ended September 30, 2019

Crude oil royalty production volumes for YTD 2019 of 8,548 bbls per day were 4% lower than the 8,950 bbls per day reported in YTD 2018 as royalty production volumes from new drilling on the Royalty Properties were offset by natural declines. Overall drilling and workover activity is down year over year which has impacted oil royalty production.

NGL royalty production volumes for YTD 2019 of 2,536 bbls per day have increased 6% from 2,391 bbls per day reported in YTD 2018 as royalty production volumes from new drilling on the Royalty Properties outweighed natural declines and operational downtime. NGL production increased despite natural gas production volume declines due to increased yields from liquids rich natural gas production.

Natural gas royalty production volumes for YTD 2019 of 63.1 MMcf per day were 12% lower than the 71.8 MMcf per day reported in YTD 2018 as royalty production volumes from new drilling on the Royalty Properties were outweighed by natural declines, operational downtime and volume freeze-offs from adverse weather during Q1 2019. Challenging natural gas pricing has resulted in a slowdown in both drilling and workover activity across Western Canada which has impacted natural gas royalty production. Both YTD 2018 and YTD 2019 were impacted by positive volume adjustments from prior periods; however, YTD 2018 natural gas volumes included additional compliance recoveries and positive adjustments that were not repeated in YTD 2019.

FINANCIAL RESULTS

OPERATING RESULTS

	Three months ended September 30, 2019		Three months ended September 30, 2018	
	($ millions)	($/BOE)[2]	($ millions)	($/BOE)[2]
Royalty Production Revenue	$ 51.9	$ 27.50	$ 71.4	$ 33.11
Administrative Expenses	(6.7)	(3.55)	(4.6)	(2.13)
Production and Mineral Taxes	(1.2)	(0.64)	(1.1)	(0.51)
Operating Netback[1]	$ 44.0	$ 23.31	$ 65.7	$ 30.47

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

	Nine months ended September 30, 2019 ($ millions)	Nine months ended September 30, 2019 ($/BOE)(2)	Nine months ended September 30, 2018 ($ millions)	Nine months ended September 30, 2018 ($/BOE)(2)
Royalty Production Revenue	**$ 181.5**	**$ 30.78**	$ 205.6	$ 32.31
Administrative Expenses	**(20.6)**	**(3.49)**	(15.8)	(2.48)
Production and Mineral Taxes	**(3.3)**	**(0.56)**	(3.8)	(0.60)
Operating Netback(1)	**$ 157.6**	**$ 26.73**	$ 186.0	$ 29.23

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

The Q3 2019 operating netback of $44.0 million ($23.31 per BOE) has decreased from $65.7 million ($30.47 per BOE) in Q3 2018 primarily as a result of decreases in realized commodity prices and lower total average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

The YTD 2019 operating netback of $157.6 million ($26.73 per BOE) has decreased from $186.0 million ($29.23 per BOE) in YTD 2018 primarily as a result of decreases in realized commodity prices and lower total average production volumes. Changes in administrative expenses and production and mineral taxes are further discussed below.

REVENUES

($ millions)	Three months ended September 30		Nine months ended September 30	
Royalty Production Revenue by Product	**2019**	**2018**	**2019**	**2018**
Crude Oil	**$ 43.4**	$ 55.4	**$ 141.8**	$ 156.7
NGL	**4.4**	8.6	**20.0**	25.6
Natural Gas	**4.1**	7.4	**19.7**	23.3
	51.9	71.4	**181.5**	205.6
Other Revenue				
Lease Rental Income	**$ 1.2**	$ 1.2	**$ 5.0**	$ 5.6
Bonus Consideration	**4.4**	5.3	**10.7**	10.1
Other Income	**1.3**	0.2	**4.1**	0.9
	6.9	6.7	**19.8**	16.6
Total Revenue	**$ 58.8**	$ 78.1	**$ 201.3**	$ 222.2

($ millions)	Three months ended September 30		Nine months ended September 30	
Revenues by Classification	**2019**	**2018**	**2019**	**2018**
Lessor Interests on Fee Lands	**$ 34.6**	$ 50.4	**$ 120.1**	$ 148.8
GORR Interests	**17.3**	21.0	**61.4**	56.8
Royalty Production Revenue	**51.9**	71.4	**181.5**	205.6
Other Revenue	**6.9**	6.7	**19.8**	16.6
Total Revenue	**$ 58.8**	$ 78.1	**$ 201.3**	$ 222.2

	Three months ended September 30		Nine months ended September 30	
Pricing	**2019**	**2018**	**2019**	**2018**
Benchmark				
WTI (US$/bbl)	**56.50**	68.81	**57.07**	66.29
Edmonton Light Sweet ($/bbl)	**68.48**	77.15	**69.62**	75.57
WCS Differential to WTI (US$/bbl)	**(12.24)**	(22.20)	**(11.74)**	(21.92)
AECO Monthly Index ($/Mcf)	**1.05**	1.35	**1.39**	1.41
AECO Daily Index ($/Mcf)	**0.89**	1.19	**1.52**	1.48
Foreign Exchange Rate (US$/CAD$)	**0.7564**	0.7683	**0.7525**	0.7768

Realized Pricing	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Crude Oil ($/bbl)	**59.04**	66.68	**60.79**	64.12
NGL ($/bbl)	**20.23**	37.32	**28.81**	39.17
Natural Gas ($/Mcf)	**0.72**	1.15	**1.14**	1.19
Total ($/BOE)	**27.50**	33.11	**30.78**	32.31

The Company's average royalty rate for Q3 2019 and Q3 2018 was approximately 6.0%. During Q3 2019, royalty production revenue was $51.9 million compared to $71.4 million for the same period in 2018, a decrease of 27% primarily as a result of lower average realized pricing for all products in combination with lower average total royalty production volumes.

During Q3 2019, revenue from Lessor Interests on Fee Lands was $34.6 million or 67% of total royalty production revenue. Revenue from GORR Interests was $17.3 million or 33% of total royalty production revenue for the same time period. In the comparative period, $50.4 million or 71% of royalty production revenue was generated from Lessor Interests on Fee Lands and $21.0 million or 29% from GORR Interests. The increase in revenue generated from GORR Interests as a percentage of total royalty production revenue is reflective of the impact of revenues from land fund arrangements and increased activity on GORR lands. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration are generated from Fee Lands.

The Company's average royalty rate for YTD 2019 and YTD 2018 was approximately 6.0%. During YTD 2019, royalty production revenue was $181.5 million compared to $205.6 million for the same period in 2018. YTD 2019 royalty production revenue decreased by 12% compared to YTD 2018 as a result of lower average realized pricing for all products and lower average total royalty production volumes.

During YTD 2019, revenue from the Lessor Interests was $120.1 million or 66% of total royalty production revenue. Revenue from GORR Interests was $61.4 million or 34% of total royalty production revenue for the same period. In the comparative period, $148.8 million or 72% and $56.8 million or 28% of royalty production revenue was generated from Lessor Interests and GORR Interests, respectively.

During Q3 2019, the Company averaged realized crude oil pricing of $59.04 per bbl, NGL pricing of $20.23 per bbl and natural gas pricing of $0.72 per Mcf. The realized pricing on all products decreased from Q3 2018 when the Company averaged realized crude oil pricing of $66.68 per bbl, NGL pricing of $37.32 and natural gas pricing of $1.15 per Mcf. YTD 2019, the Company averaged realized crude oil pricing of $60.79 per bbl, NGL pricing of $28.81 per bbl and natural gas pricing of $1.14 per Mcf. Realized pricing for all products decreased for YTD 2019 as compared to YTD 2018 when the Company averaged realized crude oil pricing of $64.12 per bbl, NGL pricing of $39.17 per bbl and natural gas pricing of $1.19 per Mcf. Realized pricing was impacted by lower average WTI benchmark pricing for both Q3 2019 and YTD 2019 which was partially offset by lower WCS to WTI differentials. Average AECO benchmark pricing for Q3 2019 decreased from Q3 2018; whereas, YTD 2019 average AECO benchmark pricing was in line with YTD 2018.

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 Q3 2019 and YTD 2019, the Company collected $1.8 million (Q3 2018 - $2.1 million) and $5.6 million (YTD 2018 - $7.7 million), respectively, in compliance recoveries. Compliance recoveries are included in royalty production revenue for the period.

Other revenue consisted primarily of lease rental income and lease bonus consideration from leases that are currently issued in respect of certain Fee Lands. Bonus consideration revenue for Q3 2019 and YTD 2019 was $4.4 million (Q3 2018 - $5.3 million) and $10.7 million (YTD 2018 - $10.1 million), respectively. Both the amount and timing of bonus consideration revenue can vary significantly from quarter to quarter as it relates to the unique circumstances of each transaction. Other income was $1.3 million for Q3 2019 (Q3 2018 - $0.2

million) and $4.1 million for YTD 2019 (YTD 2018 - $0.9 million) due to the collection of non-performance fees.

ADMINISTRATIVE EXPENSES

($ millions)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Salaries and Benefits	**$ 3.3**	$ 3.3	**$ 9.9**	$ 10.3
Share-Based Compensation (Recovery)	**2.0**	(0.6)	**5.6**	(1.1)
Office Expense	**0.6**	1.0	**2.0**	3.4
Public Company Expense	**0.2**	0.2	**1.3**	1.2
Information Technology and Other	**0.6**	0.7	**1.8**	2.0
Total Administrative Expenses	**$ 6.7**	$ 4.6	**$ 20.6**	$ 15.8
Administrative Expenses per BOE[1]	**$ 3.55**	$ 2.13	**$ 3.49**	$ 2.48
Cash Administrative Expenses[2]	**$ 4.7**	$ 5.2	**$ 17.2**	$ 22.0
Cash Administrative Expenses per BOE[1][2]	**$ 2.49**	$ 2.41	**$ 2.92**	$ 3.45

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

PrairieSky is committed to cost control in its business. Administrative expenses for Q3 2019 and YTD 2019 were $3.55 per BOE (Q3 2018 - $2.13 per BOE) and $3.49 per BOE (YTD 2018 - $2.48 per BOE), respectively. Administrative expenses include both cash and non-cash charges which relate to share-based compensation plans. Administrative expenses related to restricted share units ("RSUs"), preferred share units ("PSUs") and deferred share units ("DSUs") are impacted by the closing share price at period end and as such, are subject to variability.

Cash administrative expenses for Q3 2019 were $2.49 per BOE (Q3 2018 - $2.41 per BOE), a 3% increase on a BOE basis from Q3 2018 as a result of the lower royalty production volumes. Cash administrative expenses for YTD 2019 were $2.92 per BOE (YTD 2018 - $3.45 per BOE), a 15% decrease on a BOE basis from YTD 2018 primarily as a result of the effect of a decreased share price on the settlement of share-based compensation plans that occurred in the first quarter of each year and a reduction in office rent expense and general office expenses.

Company payouts related to share-based compensation for the entire organization, including executives, during Q3 2019 were $nil (Q3 2018 - $nil) and $2.2 million during YTD 2019 (YTD 2018 - $5.1 million). When cash share-based payments are made, there is an increase in cash administrative expenses in the period. Cash payments decreased in YTD 2019 compared to YTD 2018 due to lower pricing on the RSU and PSU plans in the current year, as well as a lower performance factor related to the PSUs. PrairieSky expects cash administrative expense to be below $3.00 per BOE in 2019.

($ millions) Share-Based Compensation	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Stock Option Expense	**$ 0.4**	$ 0.4	**$ 1.4**	$ 1.4
PSU Expense (Recovery)	**1.3**	(0.7)	**2.2**	(2.8)
RSU Expense	**0.3**	0.1	**0.9**	0.6
DSU Expense (Recovery)	**-**	(0.4)	**1.1**	(0.3)
Total Share-Based Compensation Expense (Recovery)	**$ 2.0**	(0.6)	**$ 5.6**	(1.1)

Share-based compensation expense is impacted by the closing share price at period end. Q3 2019 share-based compensation is higher than Q3 2018 due to the increase in share price at September 30, 2019 as compared to June 30, 2019; whereas, there was a decrease in the share price at September 30, 2018 as compared to June 30, 2018.

Share-based compensation expense for YTD 2019 is higher than YTD 2018 as a result of the increase in share price at September 30, 2019 as compared to December 31, 2018; whereas, there was a decline in the share price at September 30, 2018 as compared to December 31, 2017. Total outstanding units and options from all employee, officer, and director incentive plans is 0.9% of total common shares outstanding at September 30, 2019.

PRODUCTION AND MINERAL TAXES

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2019**	**2018**	**2019**	**2018**
Production and Mineral Taxes	**$ 1.2**	$ 1.1	**$ 3.3**	$ 3.8
$/BOE(1)	**$ 0.64**	$ 0.51	**$ 0.56**	$ 0.60

(1) See "Conversions of Natural Gas to BOE".

Production and mineral taxes are levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. For Q3 2019, production and mineral taxes, which includes Alberta Freehold Mineral Tax and Saskatchewan acreage tax, averaged 2.3% of royalty production revenue compared to 1.5% in Q3 2018. YTD 2019, production and mineral taxes was 1.8% of royalty production revenue, consistent with YTD 2018. Saskatchewan acreage tax does not vary with commodity pricing while Alberta Freehold Mineral Tax is impacted by both production and commodity pricing. Production and mineral taxes are based on an annual estimate which can result in variances from quarter to quarter.

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

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2019**	**2018**	**2019**	**2018**
Depletion, Depreciation and Amortization	**$ 29.2**	$ 35.4	**$ 92.4**	$ 105.2
$/BOE(1)	**$ 15.47**	$ 16.42	**$ 15.67**	$ 16.53

(1) See "Conversions of Natural Gas to BOE".

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, including the right-of-use asset associated with the office lease, are depreciated on a straight-line basis. DD&A per BOE is lower in Q3 2019 and YTD 2019 than the prior year comparative periods due to a lower depletable base. DD&A per BOE will fluctuate depending on the royalty assets acquired, if any, the amount of reserves added, and production volumes in the period.

EXPLORATION AND EVALUATION EXPENSE ("E&E")

	Three months ended September 30		Nine months ended September 30	
($ millions, except per BOE amounts)	**2019**	**2018**	**2019**	**2018**
Exploration and Evaluation Expense	**$ 1.4**	$ 0.2	**$ 4.7**	$ 0.9
$/BOE(1)	**$ 0.74**	$ 0.09	**$ 0.80**	$ 0.14

(1) See "Conversions of Natural Gas to BOE".

During Q3 2019 and YTD 2019, $1.4 million (Q3 2018 - $0.2 million) and $4.7 million (YTD 2018 - $0.9 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)	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Finance Income	$ -	$ (0.1)	$ -	$ (0.3)
Finance Expense	0.3	0.3	1.2	0.5
Net Finance Items	$ 0.3	$ 0.2	$ 1.2	$ 0.2

Finance income includes interest on funds on deposit, short term investments and, with respect to the period up to December 31, 2018, the royalty note receivable. Finance income decreased in Q3 2019 and YTD 2019 as a result of the decrease in the cash balance and the full collection of the royalty note receivable in 2018. Finance expense has remained flat with Q3 2018 and has increased in YTD 2019 as compared to YTD 2018 as a result of the renewal and extension of the credit facility and short-term interest expense as outlined below in the "Financing Activities" section of this MD&A.

INCOME TAX

($ millions)	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Current Tax Expense	$ 2.6	$ 5.6	$ 13.9	$ 17.9
Deferred Tax Expense (Recovery)	0.7	2.5	(21.9)	5.0
Income Tax Expense (Recovery)	$ 3.3	8.1	$ (8.0)	22.9

The Company's interim income tax expense (recovery) 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 PrairieSky's combined Provincial and Federal statutory tax rate of 26.6% 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. In addition, the Company has incorporated the enacted Alberta corporate income tax rate reductions for the periods from July 1, 2019 to 2022, which will reduce the provincial income tax rate to 11% effective July 1, 2019 and by 1% effective for each year commencing January 1, 2020, 2021 and 2022 bringing the rate to 8%. For YTD 2019, the deferred tax recovery includes $24.4 million attributable to these tax rate decreases which was recorded in Q2 2019.

NET EARNINGS

Net earnings for Q3 2019 and YTD 2019 were $16.7 million ($0.07 per share, basic and diluted) and $87.1 million ($0.37 per share, basic and diluted), respectively, compared to $28.5 million for Q3 2018 ($0.12 per share, basic and diluted) and $73.4 million for YTD 2018 ($0.31 per share, basic and diluted). Net earnings for Q3 2019 was lower than Q3 2018 as a result of the decrease in revenues previously noted and an increase in administrative expenses, offset by lower DD&A and income tax expense. During YTD 2019, net earnings was higher than the 2018 comparative period as lower royalty production revenue was offset by lower income tax expense due to the reduced income tax rates as noted above.

ACQUISITIONS

During Q3 2019, the Company completed acquisitions totaling $5.2 million (Q3 2018 - $19.5 million) comprised of $nil royalty assets (Q3 2018 - $7.7 million) and $5.2 million (Q3 2018 - $11.8 million) of E&E assets, consisting of royalty interests on non-producing properties, undeveloped land and seismic.

YTD 2019, the Company completed acquisitions totaling $7.8 million (YTD 2018 - $44.9 million) comprised of royalty assets of $0.1 million (YTD 2018 - $13.5 million) and E&E assets of $7.7 million (YTD 2018 - $31.4 million). Included in E&E assets acquired during the nine-month period ended September 30, 2019 was $5.8

million (September 30, 2018 - $19.9 million) related to the acquisition of GORR interests on emerging oil plays.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	Three months ended September 30 2019	2018	Nine months ended September 30 2019	2018
Net Cash From (Used In)				
Operating Activities	**$ 55.0**	$ 67.3	**$ 157.7**	$ 171.4
Investing Activities	**(1.5)**	(19.5)	**(4.1)**	(44.9)
Financing Activities	**(53.5)**	(57.8)	**(153.6)**	(171.6)
Decrease in Cash and Cash Equivalents	**-**	(10.0)	**-**	(45.1)
Cash and Cash Equivalents, Beginning of Period	**$ -**	$ 10.0	**$ -**	$ 45.1
Cash and Cash Equivalents, End of Period	**$ -**	$ -	**$ -**	$ -

OPERATING ACTIVITIES

Net cash from operating activities for Q3 2019 and YTD 2019 were $55.0 million and $157.7 million, respectively, as compared to $67.3 million and $171.4 million for the comparable periods in 2018. Net cash from operating activities is generated from funds from operations and the net change in non-cash working capital. Funds from operations is utilized by management to evaluate the ability of the Company to generate cash from its operations. This is considered a measure of operating performance as it demonstrates the Company's ability, on an ongoing basis, to fund distributions of cash flow to shareholders as dividends, to repurchase common shares under the Company's NCIB, as well as fund complementary acquisitions. Such a measure provides a useful indicator of the Company's operations, on an ongoing basis, by eliminating certain non-cash charges. Funds from operations in Q3 2019 and YTD 2019 were $48.8 million and $164.6 million, respectively, a decrease of 27% from $67.0 million in Q3 2018 and a decrease of 9% from $181.2 million in YTD 2018 due primarily to a reduction in benchmark pricing for crude oil and natural gas.

The Company had a working capital deficiency of $7.4 million as at September 30, 2019. The working capital deficiency has decreased from $10.4 million at December 31, 2018 as realized commodity prices for crude oil have recovered during YTD 2019 compared to the end of 2018, at which time differentials for light and heavy crude oil in Canada were at historically wide levels. The working capital deficiency includes $3.1 million (December 31, 2018 - $2.0 million) related to the liability for vested cash-settled DSUs which may or may not be paid in the next twelve months as amounts only becomes payable when a director is no longer a member of the Board. At September 30, 2019, accounts receivable and accrued revenue consisted primarily of accrued revenue related to royalty payments. In the crude oil and natural gas industry, accounts receivable from industry partners are typically settled in the following month; however, payments to royalty owners are often delayed longer, and as a result, actual payments may differ from estimates recorded. Accounts payable and accrued liabilities consisted primarily of production and mineral taxes payable, share-based compensation and salary-related accruals.

INVESTING ACTIVITIES

For Q3 2019 and YTD 2019, cash used in investing activities was $1.5 million (Q3 2018 - $19.5 million) and $4.1 million (YTD 2018 - $44.9 million), respectively, including royalty and E&E asset acquisitions as outlined in the "Acquisitions" section of this MD&A.

FINANCING ACTIVITIES

For Q3 2019, cash used in financing activities was $53.5 million (Q3 2018 - $57.8 million). YTD 2019, cash used in financing activities was $153.6 million (YTD 2018 - $171.6 million). The dividends paid in Q3 2019 were $45.5 million (Q3 2018 - $45.8 million) and YTD 2019 were $136.7 million (YTD 2018 - $135.9 million). In addition, the Company repurchased $4.2 million in common shares under the NCIB in Q3 2019 (Q3 2018 - $12.5 million) and $16.2 million in YTD 2019 (YTD 2018 - $35.9 million) as described below.

Since the initial public offering in May 2014 (the "IPO"), PrairieSky has declared $986.6 million in dividends to shareholders. Since inception of the NCIB in 2016, PrairieSky has purchased for cancellation 5.0 million common shares at an average cost of $25.75 per share for total consideration of $130.0 million.

Bank Debt

On May 15, 2018, the Company entered into a $200 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to $250 million, and renewed the $25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Credit Facility"), with a syndicate of Canadian banks.

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, LIBOR loans, bankers' acceptances and letters of credit, and will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured and does not have a borrowing base restriction. The Revolving Facility and the Operating Facility are each for three-year terms maturing on May 15, 2021 and, subject to certain requirements, may be extendible annually. The credit facility has three financial covenants, whereby the Company's ratio of adjusted consolidated senior debt to EBITDA will not exceed 3.5:1.0, adjusted consolidated total debt to EBITDA will not exceed 4.0:1.0, and the adjusted consolidated total debt to capitalization ratio will not exceed 55%. EBITDA used in the covenant calculation is net earnings adjusted for non-cash items, interest expense and income taxes. As at September 30, 2019, the Company was compliant with all covenants provided for in the lending agreement.

As at September 30, 2019, the Company had $4.9 million in bank debt outstanding on the Operating Facility (December 31, 2018 - $5.8 million). The Revolving Facility remains undrawn. The effective interest rate for Q3 2019 was 4.5% (Q3 2018 - 4.2%).

Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were $45.5 million or $0.1950 per share for Q3 2019 and $136.7 million or $0.5850 per share for YTD 2019.

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

Outstanding Share Data

As at September 30, 2019, PrairieSky had 233.3 million common shares outstanding (December 31, 2018 - 234.2 million) and 1.6 million outstanding stock options (December 31, 2018 - 1.0 million). As at October 28, 2019, there were 233.3 million common shares outstanding.

Capital Management

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 incur capital expenditures for crude oil and natural gas development, which enhances its financial flexibility.

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, income taxes, available Credit Facility and other factors. The Company's operating results and capital structure are impacted by the level of leasing and 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 expenses, income taxes and other investing and financing activities. The forecast is regularly updated based on changes in commodity prices, production expectations and other factors that, in the Company's view, would impact future cash flows.

On May 8, 2019 the Company announced the approval of the renewal of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to a maximum of 2,700,000 common shares over a twelve-month period which commenced on May 13, 2019 and expires no later than May 12, 2020. The Company allocated $50.0 million to repurchase common shares under the NCIB over the twelve-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 2019, the Company purchased for cancellation 0.2 million common shares (Q3 2018 - 0.5 million common shares) at a weighted average price of $17.54 per common share (Q3 2018 - $24.19 per common share) including commissions for total consideration of $4.2 million (Q3 2018 - $12.5 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 $0.8 million (Q3 2018 - $5.2 million) was charged to the deficit.

During YTD 2019, the Company purchased for cancellation 0.9 million common shares (YTD 2018 - 1.3 million common shares) at a weighted average price of $18.38 per common share (YTD 2018 - $27.36 per common share) including commissions for total consideration of $16.2 million (YTD 2018 - $35.9 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 $3.7 million (YTD 2018 - $17.4 million) was charged to the deficit.

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 risk.

Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in future royalty production revenues with changes in commodity prices. Commodity prices for crude oil, NGL and natural gas are influenced by global and regional factors, including levels of supply and demand, transportation constraints, weather and geopolitical factors. 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 its bank debt is $4.9 million and it is only drawn on the Operating Facility. The Revolving Facility remains undrawn.

Credit Risk

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

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

A substantial portion of the Company's accounts receivable are from leases, overriding royalty contracts and other agreements with crude oil and natural 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, 2019, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. As at September 30, 2019, the Company has provided an allowance for doubtful accounts of $1.1 million (December 31, 2018 - $1.0 million) calculated using a lifetime expected credit loss assessment for specifically identifiable customer balances which are assessed to be impaired.

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, 2019, the Company had a working capital deficiency of $7.4 million, down from $10.4 million at December 31, 2018. This decrease is primarily a result of increased accounts receivable due to improved commodity prices. The Company also has access to funding alternatives through its Credit Facility.

The Company's royalty production volumes and resultant revenues with high operating netbacks provide significant liquidity. The primary uses of funds are acquisitions, administrative expenses, production and mineral taxes, income taxes, dividends, and the repurchase and cancellation of PrairieSky common shares. The Company's dividend, common share repurchases and capital commitments are discretionary. The Company has unused capacity under its Credit Facility of up to $220.1 million.

The timing of expected cash outflows relating to bank debt of $4.9 million, accounts payable and accrued liabilities of $15.1 million, income tax payable of $2.9 million and the dividend payable of $15.2 million is less than one year. Included in accounts payable and accrued liabilities is $3.1 million related to vested DSUs which may or may not be cash settled in the next year.

OPERATIONAL AND BUSINESS RISKS

PrairieSky has identified key operational and business risks that may impact financial results. The most significant of these risks are as follows:

- Volatility in commodity prices and quality differentials as a result of global and North American market forces and/or shifts in the balance between supply and demand for crude oil and natural gas;
- Access to transportation, including pipelines or other methods, for bringing crude oil and natural gas to market;

- Dependence on lessees and/or third-party operators to develop the Royalty Properties and the risks associated with exploration, development and production of crude oil and natural gas, including environmental risks;
- Ability of participants in the crude oil and natural gas industry in Western Canada to access capital to develop the Royalty Properties and the industry as a whole;
- Third-party operator activity levels on the Royalty Properties and intense competition for land, goods and services, qualified personnel and capital funding;
- Variations in currency exchange rates;
- Imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. Our reserves will deplete over time through continued production and our industry partners and royalty payors may not be able to replace the reserves on the Royalty Properties on an economic basis;
- Stock market volatility and the ability to access sufficient capital from internal and external sources;
- Third-party operational or marketing risks, including take in-kind production volumes, resulting in delivery interruptions, delays, lower realized pricing and/or unanticipated production declines;
- Changes in government regulations, including taxation, environmental and Crown royalty rates; and
- Variability of dividends based on PrairieSky's financial performance and/or market conditions.

The Company employs the following strategies to mitigate these risks:

- Our Royalty Properties are diversified which limits the exposure to any one royalty payor, commodity or operator;
- We are a royalty interest holder and have no direct exposure to environmental claims and regulation or the associated costs;
- We are focused on controlling direct costs in order to maximize our funds from operations;
- Our royalty interest agreements and contracts provide mechanisms to ensure that our interests are protected;
- Systems and compliance processes are in place to identify any unpaid or incorrect revenues; and
- We maintain levels of liability insurance that meet or exceed industry standards.

ENVIRONMENTAL RISKS

The Canadian crude oil and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, including the abandonment and reclamation of well, facility and pipeline sites. Compliance with such regulations can require significant expenditures by the businesses operating on the Royalty Properties and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability and the imposition of material fines and penalties. In addition to these specific, known requirements, future changes to environmental legislation, including anticipated legislation for air pollution and greenhouse gas emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry. PrairieSky requires third-party lessees on the Royalty Properties to adhere to governmental regulation and works with the Alberta Energy Regulator to ensure compliance.

Lessees and third-party operators of the Royalty Properties are responsible for the costs associated with environmental regulation and adherence to regulation. PrairieSky may be directly impacted by reduced industry activity or the inability to collect royalty payments. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on our operations and financial condition.

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 11, 2019, which is available under PrairieSky's SEDAR profile at www.sedar.com and at www.prairiesky.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 2018 Annual MD&A, have not changed during the current period, except as noted below under "Accounting Policy Changes". The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

ACCOUNTING POLICY CHANGES

IFRS 16

The Company adopted IFRS 16 "Leases" on January 1, 2019. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease.

The Company adopted IFRS 16 using the modified retrospective approach, whereby the cumulative effect of initially applying the standard was recognized as a $3.4 million increase to right-of-use assets (included in "royalty assets") with a corresponding increase to lease obligation (the non-current portion of $2.8 million was recorded in "lease obligation" and the current portion of $0.6 million was recorded in "accounts payable and accrued liabilities"). The right-of-use assets recognized were measured at amounts equal to the lease obligation. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 4.5%. The right-of-use asset and lease obligation recognized relate to the Company's head office lease in Calgary. The Company elected to not apply lease accounting to certain leases for which the lease term ends within 12 months of the date of initial application.

The measurement of lease obligations are subject to management's judgment of the applicable incremental borrowing rate.

CONTROL ENVIRONMENT

PrairieSky is required to comply with National Instrument 52-109 "Certification of Disclosure on Issuers' Annual and Interim Filings". The certification of interim filings for the interim period ended September 30, 2019, requires that PrairieSky disclose in the interim MD&A any changes in PrairieSky's internal controls over financial reporting that occurred during the period that have materially affected, or are reasonably likely to materially affect PrairieSky's internal controls over financial reporting. PrairieSky confirms that no such changes were identified in the Company's internal controls over financial reporting during the three-month period beginning on July 1, 2019 and ending on September 30, 2019.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

($ millions, unless otherwise noted)	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	**Q3 2019**
FINANCIAL								
Royalty Production Revenue	$ 69.2	$ 64.1	$ 70.1	$ 71.4	$ 42.4	$ 66.5	$ 63.1	**$ 51.9**
Other Revenue	22.3	3.8	6.1	6.7	9.2	6.7	6.2	**6.9**
Total Revenues	91.5	67.9	76.2	78.1	51.6	73.2	69.3	**58.8**
Funds from Operations	81.1	51.8	62.4	67.0	48.5	57.8	58.0	**48.8**
Per Share - basic(1)(2)	0.34	0.22	0.27	0.29	0.21	0.25	0.25	**0.21**
Per Share - diluted(1)(2)	0.34	0.22	0.26	0.28	0.21	0.25	0.24	**0.21**
Net Earnings and Comprehensive Income	39.9	19.8	25.1	28.5	6.0	26.4	44.0	**16.7**
Per Share - basic and diluted(1)	0.17	0.08	0.11	0.12	0.03	0.11	0.19	**0.07**
Dividends Declared(3)	44.2	44.7	45.9	45.8	45.7	45.6	45.6	**45.5**
Per Share	0.1875	0.1900	0.1950	0.1950	0.1950	0.1950	0.1950	**0.1950**
Working Capital (Deficiency)	45.7	17.3	21.1	10.6	(10.4)	(6.2)	(2.1)	**(7.4)**
OPERATIONAL								
Production Volumes								
Crude Oil (bbls/d)	9,419	8,731	9,098	9,018	9,163	8,904	8,740	**8,011**
NGL (bbls/d)	2,454	2,388	2,279	2,503	2,676	2,586	2,690	**2,334**
Natural Gas (MMcf/d)	75.2	74.5	69.4	71.5	70.0	63.1	65.2	**61.0**
Total (BOE/d)(4)	24,406	23,536	22,944	23,438	23,506	22,007	22,297	**20,512**

(1) Net Earnings and Comprehensive Income and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.
(2) A Non-GAAP measure, which is defined under the "Non-GAAP Measures" section of this MD&A.
(3) A dividend of $0.065 per common share was declared on September 10, 2019. The dividend was paid on October 15, 2019 to shareholders of record on September 30, 2019.
(4) See "Conversions of Natural Gas to BOE".

- Quarterly variances in revenues, funds from operations and net earnings are primarily due to fluctuations in realized commodity prices, production volumes, and bonus consideration.

- Crude oil prices are generally determined by global and North American market forces, including supply and demand factors. Changes in the USD-CAD currency exchange rate impact the Company's oil revenue realization relative to benchmark WTI, which is referenced in US dollars. In the fourth quarter of 2018, realized commodity prices were negatively impacted by wider differentials for Canadian light and heavy crude oil to WTI due to constrained transportation capacity. Differentials narrowed in 2019 with the Alberta government's oil production curtailments.

- Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. In Western Canada, transportation constraints further impact natural gas prices.

- 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, the expertise and financial resources of third-party lessees, acquisitions of producing properties and natural declines.

- Other revenue is largely affected by the timing of bonus consideration received when new leases are negotiated, which can vary with the individual terms of each agreement.

- Net earnings are affected by revenues, as noted above, as well as depletion, administrative expense and income taxes. Administrative expense can vary in a period due to the effect of the change in share price on the Company's share-based compensation plans. The Alberta corporate income tax rate was reduced for the periods from July 1, 2019 to 2022, which has reduced the provincial income tax rate to 11% effective July 1, 2019 and will further reduce the rate by 1% effective for each year commencing January 1, 2020, 2021 and 2022 bringing the rate to 8%. The deferred tax recovery was recorded in Q2 2019.

- Dividends fluctuate as the number of shares outstanding in the quarter is reduced by share repurchases and cancellations under the NCIB. The dividend is set annually by the Board of Directors by considering forecasted funds from operations for the next year.

- The Company has returned $363.0 million in the form of dividends to shareholders and has purchased over 3.0 million common shares for $72.9 million over the past eight quarters.

- Working capital has decreased as cash on hand was used to complete acquisitions of incremental royalty interests and seismic. Declining prices in Q4 2018 reduced accrued revenue at the end of Q4 2018, resulting in a working capital deficiency at December 31, 2018. The working capital deficiency has been reduced through the first nine months of 2019 due to the recovery of commodity prices and narrowed differentials for both Canadian light and heavy crude oil.

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 crude oil and natural 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 per share - basic and diluted, cash administrative expenses and cash administrative expenses per BOE. 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 revenue less production and mineral taxes and administrative expenses. Operating netback provides a consistent measure of the cash generating and operating 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 and operating performance per unit of product sold. Operating netback per BOE measures are commonly used in the crude oil and natural gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for a summary of this reporting period's operating netback calculations.

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

"Cash Administrative Expenses" represents administrative expenses excluding the volatility and fluctuations in share-based compensation expense for RSUs, PSUs and DSUs and stock options that were not settled in cash in the current period. Cash administrative expenses are calculated as total administrative expenses, adjusting for share-based compensation expense (recovery) in the period, plus any actual cash payments made under the RSU, PSU or DSU plans. Management believes cash administrative expenses are a common benchmark used by investors when comparing companies to evaluate operating performance.

"Cash Administrative Expenses per BOE" represents cash administrative expenses on a BOE basis. Cash administrative expenses per BOE is calculated by dividing cash administrative expenses by the production volumes for the period. Cash administrative expenses per BOE assists management and investors in evaluating operating performance on a comparable basis.

FUNDS FROM OPERATIONS PER SHARE CALCULATIONS – BASIC AND DILUTED

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

($ millions, except per share data)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Funds from Operations	**$ 48.8**	$ 67.0	**$ 164.6**	$ 181.2
Number of Common Shares:				
Weighted Average Common Shares Outstanding - Basic	**233.4**	235.0	**233.7**	235.4
Effect of Dilutive Securities	**0.4**	0.3	**0.4**	0.3
Weighted Average Common Shares Outstanding - Diluted	**233.8**	235.3	**234.1**	235.7
Funds from Operations per Share - Basic	**$ 0.21**	$ 0.29	**$ 0.70**	$ 0.77
Funds from Operations per Share - Diluted	**$ 0.21**	$ 0.28	**$ 0.70**	$ 0.77

CASH ADMINISTRATIVE EXPENSES

The following table presents the computation of Cash Administrative Expenses:

($ millions)	Three months ended September 30 2019	Three months ended September 30 2018	Nine months ended September 30 2019	Nine months ended September 30 2018
Total Administrative Expenses	**$ 6.7**	$ 4.6	**$ 20.6**	$ 15.8
Share-Based Compensation Recovery (Expense)	**(2.0)**	0.6	**(5.6)**	1.1
Cash Payments Made Under RSU and PSU Plans	**-**	-	**2.2**	5.1
Cash Administrative Expenses	**$ 4.7**	$ 5.2	**$ 17.2**	$ 22.0

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at October 28, 2019 and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- commodity prices including supply and demand factors relating to crude oil, natural gas and NGL;
- expected future commitments and payments related thereto;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention to distribute the 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 and products mitigate this risk;
- possible revisions to accrued estimates based on receipt of actual results;

- impact of compliance activities and recoveries, which vary quarterly;
- impact of bonus consideration, which varies quarterly;
- the Company's expectations regarding production curtailments in Alberta and the impacts thereof;
- the Company's expectations regarding operator's approach to budgets and capital spending, and in particular the Company's expectation that capital spending in 2019 is expected to reach a decade low.
- impact of PrairieSky's share price on administrative expenses and the expected administrative expenses per BOE in 2019;
- 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;
- changes to Alberta provincial income tax rates;
- the ability to mitigate the risks of fluctuations in commodity prices and production volumes, including but not limited to impacts from a slowdown in both natural gas drilling and workover activity; and
- average production and contribution from the Royalty Properties including the impact of declines.

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 acquisitions. These risks and uncertainties include risks relating to title to the assets acquired and the potential for disputes to arise with 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 properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, administrative expenses and income taxes; 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 to execute the volume and/or value of purchases as described under the normal course issuer bid or future normal course issuer bids.

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 interim condensed consolidated financial statements is shown on a Canadian dollar basis.

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

ADDITIONAL INFORMATION

Additional information about PrairieSky, including the 2018 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.