PrairieSky Royalty Ltd.

Management's Discussion and Analysis

(Prepared in accordance with IFRS)

For the period ended December 31, 2014

(Prepared in Canadian Dollars)

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read with the Audited Annual Financial Statements as at December 31, 2014 and for the period from May 27, 2014 to December 31, 2014 ("Financial Statements"). This MD&A was prepared and is dated February 23, 2015.

The term "fourth quarter" and "period ended" or similar terms are used throughout the document and refer to the three months ended December 31, 2014 and May 27, 2014 to December 31, 2014, respectively. The term "current reporting periods" or similar terms are used throughout this document to refer to both the three months ended December 31, 2014 and May 27, 2014 to December 31, 2014, respectively. The term "Q2 2014" refers to the period from May 27, 2014 to June 30, 2014. The term "Q3 2014" refers to the period from July 1, 2014 to September 30, 2014.

The audited annual 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 Cash Flow, Netback, Funds from Operations, Adjusted Net Earnings and Comprehensive Income per share basic and diluted and Adjusted 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; and a reconciliation of Adjusted Net Earnings and Comprehensive Income Per Share basic and diluted and Adjusted Funds from Operations Per Share basic and diluted.

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 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 and currency and references to PrairieSky.

FINANCIAL RESULTS

($ millions, unless otherwise noted)	Q2 2014	Q3 2014	Q4 2014	For the period May 27, 2014 to December 31, 2014
Revenues	$ 37.7	$ 91.4	$ 69.6	$ 198.7
Funds from Operations[1]	31.0	68.7	59.0	158.7
Per Share – basic and diluted[2]	0.66	0.53	0.44	2.04
Adjusted Per Share – basic and diluted[1]	0.24	0.53	0.44	1.22
Net Earnings and Comprehensive Income	24.4	61.2	50.7	136.3
Per Share – basic and diluted[2]	0.52	0.47	0.38	1.75
Adjusted Per Share – basic and diluted[1]	0.19	0.47	0.38	1.05
Dividends[3]	13.8	41.3	43.2	98.3
Per Share	0.1058	0.3174	0.3174	0.7406
Total Assets	339.7	380.0	1,120.1	1,120.1
Shares Outstanding				
Weighted average - basic	47.1	130.0	132.5	77.9
Weighted average - diluted	47.3	130.1	132.6	78.0
Production Volumes				
Natural Gas (MMcf/d)	42.9	44.1	58.6	50.0
Crude Oil (bbls/d)	6,931	6,599	6,069	6,429
NGL (bbls/d)	1,582	1,493	1,444	1,487
Total (BOE/d)[4]	15,664	15,448	17,280	16,249
Realized Pricing				
Natural Gas ($/Mcf)	$ 4.51	$ 4.94	$ 3.68	$ 4.26
Crude Oil ($/bbl)	98.50	88.58	67.41	81.90
NGL ($/bbl)	63.55	70.94	36.70	55.71
Total ($/BOE)[4]	$ 62.35	$ 58.80	$ 39.24	$ 50.62
Natural Gas Price Benchmarks				
AECO ($/Mcf)	$ 4.68	$ 4.22	$ 4.01	$ 4.30
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	102.98	97.44	73.39	89.84
Edmonton Light Sweet ($/bbl)	104.53	98.11	75.23	92.63

(1) A Non-GAAP measure, which is defined under the Non-GAAP Measures section in this MD&A.
(2) Net Earnings and Comprehensive Income and Funds from Operations per common share are calculated using the weighted average number of Common Shares outstanding from January 1, 2014 to December 31, 2014 after giving effect to stock options.
(3) A dividend of $0.1058 per Common Share was declared on December 15, 2014. The dividend was paid on January 15, 2015 to shareholders of record as at December 31, 2014.
(4) See “Conversions of Natural Gas to BOE”.

RESULTS OVERVIEW

HIGHLIGHTS

In the fourth quarter, PrairieSky reported:

- Funds from Operations of $59.0 million and Net Earnings of $50.7 million.
- Average production of 17,280 BOE/day consisting of crude oil production volumes of 6,069 bbls/d, average NGL production volumes of 1,444 bbls/d and average natural gas production volumes of 58.6 MMcf/d.
- Average realized crude oil prices of $67.41 per bbl, average realized NGL prices of $36.70 per bbl and average realized natural gas prices of $3.68 per Mcf.

During the period from May 27, 2014 to December 31, 2014, PrairieSky reported:

- Funds from Operations of $158.7 million and Net Earnings of $136.3 million.
- Average production of 16,249 BOE/day consisting of crude oil production volumes of 6,429 bbls/d, average NGL production volumes of 1,487 bbls/d and average natural gas production volumes of 50.0 MMcf/d.
- Average realized crude oil prices of $81.90 per bbl, average realized NGL prices of $55.71 per bbl and average realized natural gas prices of $4.26 per Mcf.
- Cash and cash equivalents of $63.1 million and working capital of $69.0 million as at December 31, 2014.

Significant developments for the Company during the period ended December 31, 2014 included the following:

- On December 19, 2014, PrairieSky acquired a private limited partnership and a private corporation acting as its general partner (collectively, “Private Co.”) in exchange for total consideration of approximately 19.3 million common shares of PrairieSky, valued at the closing price on December 19, 2014 for total consideration of $625.3 million.

- Acquired royalty interests from a third party oil and gas producer effective July 31, 2014 for a cash purchase price of $9.0 million. From the date of acquisition to December 31, 2014, approximately $0.6 million of revenue and approximately $0.4 million of net income was recognized from the acquisition.

BUSINESS OVERVIEW

HISTORY

The Company was incorporated under the *Business Corporations Act (Alberta)* under the name 1786071 Alberta Ltd. on November 27, 2013. On April 11, 2014, the Company filed articles of amendment to change its name to "PrairieSky Royalty Ltd.". The Company had no significant operating activity from the date of incorporation until May 27, 2014, when it acquired a royalty business (the "Acquisition") from Encana Corporation ("Encana"), with assets comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas, natural gas liquids and certain other mineral rights located predominantly in central and southern Alberta (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands ("Lessor Interests"); (iii) royalty interests, including overriding royalty interests, gross overriding royalty interests and production payments ("GORR Interests") on lands ("GORR Lands"); (iv) an irrevocable, perpetual license to certain proprietary seismic data of Encana; and (v) certain other related assets as set forth in the Purchase and Sale Agreement between the Company and Encana (collectively, the "Acquired Business"). In this MD&A the Fee Lands, the Lessor Interests, the GORR Lands, and assets or interests acquired subsequent to the Acquisition are collectively referred to as the "Royalty Assets".

On May 29, 2014, PrairieSky completed an initial public offering ("IPO") whereby Encana sold 52.0 million common shares of the Company ("Common Shares") and the Common Shares were listed and posted for trading on the Toronto Stock Exchange ("TSX"). On June 3, 2014, the Company announced that in connection with the IPO the over-allotment option granted to the underwriters to purchase up to an additional 7.8 million common shares from Encana at the offering price had been exercised in full. Following completion of the IPO and exercise of the over-allotment option, Encana owned 70.2 million Common Shares, representing 54% of the issued and outstanding Common Shares.

On September 26, 2014, PrairieSky and Encana announced the completion of a secondary offering of 70.2 million Common Shares at a price of $36.50 per share, for aggregate gross proceeds to Encana of approximately $2.6 billion. The Company did not receive any of the proceeds from the initial or the secondary offering. Following the close of the secondary offering, Encana no longer holds any interest in PrairieSky.

PRAIRIESKY ROYALTY

PrairieSky is focused on encouraging third parties to actively develop the Royalty Assets, 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 Assets 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 and British Columbia.

PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands predominately located in Alberta that encompasses approximately 5.3 million acres with petroleum and/or natural gas rights, an additional 1.1 million acres in coal only titles and approximately 3.4 million acres of GORR Lands and 0.4 million of other acreage.

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

PrairieSky has royalty interests in more than 24,000 wells and received royalties from over 285 industry payors. The Company receives approximately 80% of its monthly revenue from 25 payors. Royalty rates for fee simple lessees range from 0.01% to 40% and for GORR Interests range from 0.16% to 35%.

Royalties are calculated on a fixed percentage or sliding scale formula. Some royalty agreements allow for the deduction of certain costs.

Petroleum and natural gas royalty structures are typically linked directly to production volumes and price. Therefore 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 Assets, 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 and access to markets. 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 Assets and the production of natural gas, crude oil, and NGL is diversified.

Natural gas pricing within the North American market is typically impacted by seasonality and weather conditions. Natural gas is a seasonal fuel with demand generally being higher during the winter and summer and lower in the spring and fall. Crude oil prices are generally determined by global supply and demand factors and these variances do not have seasonal predictability. Production conditions on the Royalty Assets are susceptible to diverse weather patterns experienced in western Canada and can impact operations. Natural gas and NGL pricing is also impacted by industrial demand and North American natural gas inventories. As such, PrairieSky's royalty revenue will be directly impacted as third party exploration and production companies experience these conditions.

Costs incurred by the Company are primarily freehold 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 payments. Costs and associated risks typical of oil and gas upstream development such as drilling, production equipment, operating, production maintenance and land restoration are not incurred by PrairieSky. These costs are the responsibility of the third parties conducting operations on the Royalty Assets.

Management's discussion and analysis for this reporting period focuses on the period from commencement of operations on May 27, 2014 to December 31, 2014.

PRAIRIESKY'S 2015 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 current economic environment is challenging and uncertain amidst low commodity prices, volatile financial markets and limited access to capital markets. Management continues to deploy their risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collection program, a conservative approach to capital structure, paying close attention to administrative costs and a disciplined approach to acquisitions.PrairieSky has a strong balance sheet and continues to employ a conservative capital structure and monitor administrative expenses and capital expenditures. As at December 31, 2014, PrairieSky had available undrawn capacity under the Credit Facility as defined herein of $100 million and working capital of $69.0 million with $63.1 million in cash.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and companies' guidance for capital expenditures for 2015. Given PrairieSky has no operational control over capital expenditures on our lands it is difficult to predict activity levels.

PrairieSky has royalty interests in over 24,000 wells and collects royalty revenue from over 285 industry operators. This diversity assists in reducing our collection and credit risk. The Company has the ability to "take in kind" royalty volumes which would, in conjunction with the above, further assist 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 a relatively low risk and low cost to the Company. The Company seeks to achieve this objective by (i) focusing on organic growth of the royalty revenue from the Fee Lands; (ii) proactively monitoring and managing the portfolio of Royalty Assets to ensure third party adherence to lease terms and contractual provisions (including offset well obligations); and (iii) selectively pursuing strategic business development opportunities that are relatively low risk to the Company and accretive to shareholders. The Company intends to pay out the majority of the cash flow as dividends to shareholders over time.

QUARTERLY TRENDS

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

The Company's financial results over the past two quarters were influenced by the following significant changes:

- Since PrairieSky commenced business, oil prices have declined significantly due to world supply concerns from a WTI monthly average in May 2014 of $101.76 US/bbl to a monthly average in December 2014 of $59.50 US/bbl.
- Since PrairieSky commenced business, gas prices also decreased from the AECO monthly average in May 2014 of $4.74/mcf to the monthly average in December 2014 of $4.16/mcf.
- Offsetting these commodity prices declines is the decrease in the Canadian dollar compared to the US dollar. (1 CAD = USD) $0.9200 on May 27, 2014 to $0.8620 on December 31, 2014.
- The WTI quarterly average has decreased from $97.44 US/bbl in the third quarter to $73.39 US/bbl in the fourth quarter.
- The AECO quarterly average has decreased from $4.22/mcf in the third quarter to $4.01/mcf in the fourth quarter.
- The realized NGL price has decreased from $70.94/bbl in the third quarter to $55.71/bbl in the fourth quarter as a result of a higher weighting of lower priced products.
- Average total realized price of $39.24 per BOE for the three month period ended December 31, 2014 has decreased 33% from $58.80 for the prior quarter.

PRODUCTION

PRODUCTION VOLUMES

(average daily)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Natural Gas (MMcf/d)	**58.6**	**50.0**
Crude Oil (bbls/d)	**6,069**	**6,429**
NGL (bbls/d)	**1,444**	**1,487**
Total Production (BOE/d)	**17,280**	**16,249**

For the three months ended December 31, 2014

Royalty revenues of $61.2 million were received from approximately 16,700 producing wells, with an additional $1.2 million in revenues from the acquisition of Private Co. on December 19, 2014 on production volumes of 2,724 BOE/d from approximately 7,700 producing wells. Average crude oil production volumes were 6,069 bbls/d, average NGL production volumes were 1,444 bbls/d and average natural gas production volumes were 58.6 MMcf/d of which Private Co. contributed average crude oil production volumes of 1,057 bbls/d, average NGL production volumes of 134 bbls/d and average natural gas production volumes of 9.2 MMcf/d for the period from December 19th to December 31, 2014.

Crude oil production volumes for the fourth quarter have decreased 8% over the third quarter due to pricing on sliding scale royalties, partially offset by the acquisition of Private Co. At lower commodity prices, certain volumes attract no royalties under sliding scale agreements. Gas production volumes for the fourth quarter increased 33% over the third quarter due to increased drilling activity, incremental prior period adjustments for the fourth quarter, and the acquisition of Private Co.

PrairieSky's crude oil, NGL and natural gas production volumes are marketed with lessees' production and therefore PrairieSky is exposed to commodity price volatility. The Company does not currently intend to enter into any commodity price hedges.

For the period ended December 31, 2014

Royalty revenues of $178.9 million were received from approximately 16,700 producing wells and royalty revenues of $1.2 million resulted from the acquisition of Private Co. on December 19, 2014 on production volumes of 149 BOE/d from approximately 7,700 producing wells. Average crude oil production volumes were 6,429 bbls/d, average NGL production volumes were 1,487 bbls/d and average natural gas production volumes were 50.0 MMcf/d of which Private Co. contributed average crude oil production volumes of 58 bbls/d, average NGL production volumes of 8 bbls/d and average natural gas production volumes of 0.5 MMcf/d.

Production volumes are impacted by prior period production adjustments, third party development activities and natural declines.

FINANCIAL RESULTS

REVENUES

Revenues by Product ($ millions)	**Three months ended December 31, 2014**	**For the period May 27, 2014 to December 31, 2014**
Crude Oil	**$ 37.6**	**$ 115.3**
Natural Gas	**19.9**	**46.7**
NGL	**4.9**	**18.1**
	62.4	**180.1**
Other Revenues	**7.2**	**18.6**
Total Revenues	**$ 69.6**	**$ 198.7**

Revenues by Royalty Classification *($ millions)*	**Three months ended December 31, 2014**	**For the period May 27, 2014 to December 31, 2014**
Fee Lands	**$ 59.1**	**$ 174.0**
GORR Interests	**3.3**	**6.1**
	62.4	**180.1**
Other Revenues	**7.2**	**18.6**
Total Revenues	**$ 69.6**	**$ 198.7**

The Company's operations include royalty revenues earned from crude oil, NGL and natural gas produced from the Royalty Assets. Royalty rates vary from approximately 1% to 40%. The average royalty rate for the fourth quarter and period ended December 31, 2014 was approximately 8.7% and 9.0%, respectively for each period presented. In the fourth quarter, revenues from the Lessor Interests were $59.1 million or 95% of total royalty revenues and revenues from GORR Interests were $3.3 million or 5% of total royalty revenues. In the period ended December 31, 2014, revenues from the Lessor Interests were $174.0 million or 97% of total royalty revenues and revenues from GORR Interests were $6.1 million or 3% of total royalty revenues.

Royalty Compliance Revenue is the revenue received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. The Company collected $3.8 million in Compliance Revenues for the three months ended December 31, 2014 and $12.6 million for the period from May 27, 2014 to December 31, 2014.

Other revenues primarily consist of lease rental income from leases that are currently issued in respect of certain Fee Lands, lease bonus consideration and nonperformance fees.

ACQUISITIONS

The Company commenced active operations on May 27, 2014 following the completion of the Acquisition. The Company was a wholly owned subsidiary and controlled by Encana prior to closing the IPO, and remained controlled by Encana immediately subsequent to closing. Consequently, the entity was under common control at the time of the Acquisition. The Acquisition has been accounted for using the predecessor values from the date of transaction method, whereby the Acquired Business is transferred to the Company based on the historical carrying value carved out of Encana. The table below summarizes the carrying value of the net assets transferred as of May 27, 2014.

($ millions)	**As at May 27, 2014**
Exploration and Evaluation Assets	**$ 6.8**
Royalty assets, net	**181.2**
Other Assets	**16.5**
Goodwill	**57.8**
Net Working Capital	**37.7**
Carrying Value of Net Assets Acquired	**$ 300.0**

Pursuant to the Acquisition, the Company issued 129.994 million Common Shares to Encana in exchange for the Acquired Business. On May 29, 2014 and September 26, 2014, these Common Shares were sold in an initial public offering and a secondary offering for $28.00 and $36.50 per Common Share, respectively. The Company did not receive any proceeds from either of these offerings.

The difference between the Common Share consideration of $555.7 million and the carrying value of the Acquired Business of $300.0 million is recognized as a Reserve from Common Control in Shareholders' Equity, as follows:

($ millions)	
Common Shares	$ 555.7
Carrying Value of Net Assets Transferred	(300.0)
Reserve from Common Control	$ 255.7

During the fourth quarter, the Company completed acquisitions with an aggregate cost of $465.7 million comprised primarily of royalty assets of $364.6 million, and exploration and evaluation assets of $94.8 million from the acquisition of Private Co., in addition to $6.3 million in other capital additions.

The table below summarizes the purchase equation of Private Co.:

Consideration:		
Issuance of 19.3 million common shares of PrairieSky	**$**	**625.3**

Net Assets Acquired:		
Working capital	**$**	**7.4**
Royalty assets		**364.6**
Exploration and evaluation assets		**94.8**
Debt		**(24.5)**
Goodwill		**280.1**
Deferred income taxes		**(97.1)**
Net assets acquired	**$**	**625.3**

During the period ended December 31, 2014, the Company completed the acquisition of Private Co. in addition to acquisitions in the third quarter with an aggregate cost of $11.5 million which were primarily comprised of 34,080 acres of royalty assets that are complementary to the existing Company assets. The assets and liabilities acquired from both of these transactions were recorded at fair market value.

OPERATING RESULTS

	For the three months ended December 31, 2014				For the period May 27, 2014 to December 31, 2014			
	Operating Cash Flow[1] ($ millions)		Total Netback[1] ($/BOE)		Operating Cash Flow[1] ($ millions)		Total Netback[1] ($/BOE)	
Revenues[2]	**$**	**62.4**	**$**	**39.24**	**$**	**180.1**	**$**	**50.62**
Administrative Expenses		**7.6**		**4.75**		**16.0**		**4.49**
Freehold Mineral Taxes		**1.3**		**0.80**		**5.7**		**1.59**
Operating Cash Flow/Netback	**$**	**53.5**	**$**	**33.69**	**$**	**158.4**	**$**	**44.54**

	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Production Volumes (BOE/d)[3]	**17,280**	**16,249**

(1) Non-GAAP measure. See “Non-GAAP Measures” in this MD&A.
(2) Excludes the impact of Other Revenues.
(3) See “Conversions of Natural Gas to BOE”

For the three months ended December 31, 2014

Operating Cash Flow was $53.5 million and was impacted by:

- Average total realized price of $39.24 per BOE on production;
- Average total production volumes of 17,280 BOE/d;
- Production revenue of $62.4 million;
- Administrative expenses of $7.6 million; and
- Freehold mineral tax of $1.3 million.

For the period ended December 31, 2014

Operating Cash Flow was $158.4 million and was impacted by:

- Average total realized price of $50.62 per BOE on production;
- Average total production volumes of 16,249 BOE/d;
- Production revenue of $180.1 million;
- Administrative expense of $16.0 million; and
- Freehold mineral tax of $5.7 million.

Freehold mineral tax is levied on an annual basis on the value of oil and natural gas production from non-Crown lands. Throughout the period it is impacted by production estimates and prices. For the fourth quarter of 2014 and for the period ended December 31, 2014, freehold mineral taxes were an average of 2.1% and 3.2%, of revenues respectively.

ADMINISTRATIVE

($ millions)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Salaries and Benefits	$ 3.4	$ 7.9
Share-Based Compensation	0.7	2.7
Office Expense	0.7	1.7
Public Company Expense	0.6	0.9
Information Technology and Other	0.6	1.2
Private Co. Transaction Costs	1.6	1.6
Total Administrative Expense	$ 7.6	$ 16.0

	For the three months ended December 31, 2014		For the period May 27, 2014 to December 31, 2014	
	($ millions)	($/BOE)[1]	($ millions)	($/BOE)[1]
Administrative – cash	$ 6.9	$ 4.34	$ 13.3	$ 3.73
Administrative – non-cash	0.7	0.44	2.7	0.76
Total Administrative Expense	$ 7.6	$ 4.78	$ 16.0	$ 4.50

(1) See “Conversions of Natural Gas to BOE”.

Of the total share-based compensation for the period ended December 31, 2014, the Company expensed $0.6 million related to the Company’s Deferred Share Unit (“DSU”) plan. All Directors elected to receive their annual Board of Directors (“Board”) and Committee retainers and fees in the form of DSUs. The remaining $2.1 million share based compensation expense for the period ended December 31, 2014 relates to the Company’s other employee share-based plans. The share-based cash-settled plans’ expenses are impacted by the closing share price at December 31, 2014. For further explanation refer to Note 17 of the audited annual Financial Statements for the period ended December 31, 2014.

DEPLETION, DEPRECIATION AND AMORTIZATION

($ millions, except per BOE amounts)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Depreciation, Depletion and Amortization	$ 12.4	$ 24.8
$/BOE	$ 7.80	$ 6.97

The Company calculates DD&A relative to total proved and probable reserves. DD&A was calculated based on production for the period ended December 31, 2014 following completion of the Acquisition. DD&A will increase in the future as a result of the depletable cost base increasing from the acquisition of Private Co. at fair market value.

On May 27, 2014 the Company began depleting crude oil, NGL and natural gas properties using the unit-of-production method over proved plus probable reserves on a prospective basis. For the period from May 27, 2014 to December 31, 2014, the Company recorded $6.0 million lower depletion expense than it would have using proved reserves. Based on the reserves at the date of the change in estimate, the effect reduced depletion by $1.64 per BOE. It is not practical for the Company to estimate the effect on depletion expense for future periods.

FINANCE

($ millions)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Finance Income	$ (0.4)	$ (0.7)
Finance Expense	0.1	0.3
Net Finance Items	$ (0.3)	$ (0.4)

Finance income includes interest on funds on deposit, short term investments and a note receivable. Finance expense includes credit facility set-up and maintenance fees.

INCOME TAX

($ millions)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Current Tax Expense	$ 2.1	$ 20.3
Deferred Tax Recovery	(4.2)	(4.0)
Income Tax Expense (Recovery)	$ (2.1)	$ 16.3

For the period ended December 31, 2014, the Company's effective tax rate was approximately 10.0%. The Company's effective tax rate differs from the Canadian statutory tax rate of 25% 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.

Under the terms of the Acquisition, the Company acquired tax pools of approximately $500 million relating to the Royalty Assets. Under IFRS, deferred income tax liabilities and assets are not recognized for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of transaction, affects neither accounting net earnings nor taxable earnings. For further explanation refer to Note 8 of the audited annual Financial Statements as at December 31, 2014.

On the closing of the acquisition of Private Co., the Company acquired approximately $97.1 million in deferred tax liabilities.

The approximate amounts of tax pools available are:

As at December 31,	2014
Canadian oil and gas property expense	$ 484.1
Canadian development expense	0.5
Undepreciated capital cost	0.8
Non-capital loss carryforwards	7.8
	$ 493.2

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. Management believes that the tax provision for the Company is adequate.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Net Cash From (Used In)		
Operating Activities	$ 76.7	$ 184.9
Investing Activities	(4.8)	(14.7)
Financing Activities	(65.7)	(107.2)
Increase in Cash and Cash Equivalents	6.2	63.0
Cash and Cash Equivalents, End of Period	$ 63.1	$ 63.1

OPERATING ACTIVITIES

Net cash from operating activities in the fourth quarter of 2014 was $76.7 million. For the fourth quarter of 2014, the net change in other assets and liabilities was an increase of $0.9 million and the net change in non-cash working capital was an increase of $17.7 million.

Net cash from operating activities for the period from May 27, 2014 to December 31, 2014 was $184.9 million. For the period ended December 31, 2014, the net change in other assets and liabilities was an increase of $2.0 million and the net change in non-cash working capital was an increase of $26.0 million.

The Company had working capital of $69.0 million as at December 31, 2014. Accounts receivable and accrued revenues consist primarily of trade receivable and accrued revenues related to lease and royalty payments from third parties. Accounts payable and accrued liabilities consist primarily of freehold mineral tax, amounts due related to the Acquisition on May 27, 2014, share-based compensation and salary related accruals. At December 31, 2014, working capital included cash and cash equivalents of $63.1 million.

INVESTING ACTIVITIES

For the fourth quarter and period ended December 31, 2014, investing activities were $4.8 million and $14.7 million respectively, which resulted from the acquisition of royalty assets.

FINANCING ACTIVITIES

For the fourth quarter and period ended December 31, 2014, financing activities were $65.7 million and $107.2 million respectively, which resulted from dividends to shareholders and the repayment of debt assumed on the acquisition of Private Co.

Credit Facility

PrairieSky has in place an unsecured $75 million extendible revolving credit facility (the “Revolving Facility”), with a permitted increase to $125 million (subject to certain conditions), and an unsecured $25 million extendible operating credit facility (the “Operating Facility”, and together with the Revolving Facility, the “Credit Facility”). The Credit Facility has a three-year term and, subject to certain requirements, may be extended. The Credit Facility is fully revolving up to maturity and may be extended or accelerated pursuant to the Credit Facility’s terms and conditions. Maintenance costs for the period from May 27, 2014 to December 31, 2014 were $0.2 million. As at December 31, 2014, the Credit Facility continues to remain undrawn.

Outstanding Share Data

As at December 31, 2014 and February 23, 2015, PrairieSky had 149.3 million Common Shares outstanding and 0.5 million outstanding stock options.

Common Shares

On incorporation, the Company issued 100 Common Shares to Encana at a subscription price and stated capital of $100 per Common Share. In connection with an internal reorganization involving the Company and Encana that was completed effective December 13, 2013, the Company issued an additional 25.0 million Common Shares with a nominal stated capital to Encana for non-cash consideration.

Share Consolidation

On January 31, 2014, the Company amended its articles to effect a consolidation of its Common Shares, pursuant to which one new Common Share was issued for every 4,166.6833 outstanding Common Shares.

Acquisition of Royalty Business

On May 22, 2014, the Company and Encana entered into the PSA for the acquisition of the Acquired Business from Encana, pursuant to which Encana received 129.994 million Common Shares as consideration. Under the PSA, the legal stated capital maintained by the Company for the Common Shares issued to Encana was $555.7 million. As part of the Acquisition, the Company and Encana entered into: (i) a Seismic Licence Agreement for which Encana granted the Seismic Licence to the Company; and (ii) Lease Issuance and Administration Agreements pursuant to which the Company issued leases to document Encana's retention of a working interest in respect of certain Fee Lands purchased in the Acquisition and pursuant to which, the Company receives royalties from Encana.

Initial Public Offering

On May 22, 2014, a final prospectus was filed qualifying the distribution of 52.0 million Common Shares which were sold by Encana pursuant to the terms of an underwriting agreement dated May 22, 2014 at a price of $28.00 per Common Share which closed on May 29, 2014. On June 3, 2014, the underwriters exercised the over-allotment option resulting in an additional 7.8 million Common Shares being sold by Encana at a price of $28.00 per Common Share. The Company did not receive any proceeds from the IPO nor was it responsible for any fees or expenses of the IPO.

On May 29, 2014, the Company and Encana entered into, among other agreements: (i) a Governance Agreement, which governed various aspects of the relationship; and (ii) an Investor Liquidity Agreement, which provided Encana or its transferee the ability to require the Company, among other things, to file future prospectuses in respect of the distribution of all or a portion of the Common Shares held by Encana or its transferee. The Governance Agreement and the Liquidity Agreement terminated, in accordance with their terms, on completion of a secondary public offering by Encana on September 26, 2014.

Secondary Offering

On September 26, 2014, PrairieSky and Encana announced the completion of the secondary offering of 70.2 million Common Shares at a price of $36.50 per Common Share, for aggregate gross proceeds to Encana of approximately $2.6 billion. The Company did not receive any of the proceeds of the secondary offering, nor was it responsible for any costs related to the secondary offering. Following the closing of the secondary offering, Encana no longer holds any interest in PrairieSky.

Acquisition of Private Co.

On December 19, 2014, PrairieSky issued 19.3 million Common Shares for the acquisition of Private Co.

Dividends

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividend payments were $41.3 million or $0.3174 per share for the fourth quarter of 2014 and $82.5 million or $0.6348 per share for the period from May 27, 2014 to December 31, 2014. On December 15, 2014, the Board declared a dividend of $0.1058 per Common Share paid on January 15, 2015 to shareholders of record as at December 31, 2014. On December 19, 2014, the Company increased its annual dividend from $1.27 per share to $1.30 per share, which will be paid monthly, commencing in February 2015 to shareholders of record as at January 30, 2015.

Capital Structure

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends after consideration of the Company's financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not have capital 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, taxes, available Credit Facility, share issuance costs and other factors. The Company's operating results and capital structure is impacted by the level of development activity by third parties on the Royalty Assets and the resultant royalty revenues, level of costs incurred by the Company and commodity prices.

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

COMMITMENTS

CONTRACTUAL COMMITMENTS

($ millions)	Expected Future Payments					
(undiscounted)	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Information technology	$ 0.1	$ -	$ -	$ -	$ -	**$ 0.1**
Office lease	1.8	1.7	1.4	1.4	7.1	**13.4**
Commitments	$ 1.9	$ 1.7	$ 1.4	$ 1.4	$ 7.1	**$ 13.5**

In connection with the business combination of Private Co., the Company entered into two royalty acquisition agreements with unrelated parties. The agreements expire on December 31, 2016 and August 1, 2017 and result in a remaining commitment of $0.9 million and $4.6 million, respectively.

TRANSACTIONS WITH RELATED PARTIES

Following the closing of a secondary public offering on September 26, 2014, the Company and Encana are no longer related parties.

Concurrently with completion of the Acquisition and before closing of the IPO, the Company and Encana entered into a number of agreements, including: (i) Lease Issuance and Administration Agreements pursuant to which the Company issued leases to document Encana's retention of a working interest in respect of certain Fee Lands purchased in the Acquisition and pursuant to which, the Company will receive royalties from Encana; (ii) a Transition Services Agreement pursuant to which Encana provided certain day-to-day administrative services required by the Company, until December 31, 2014, subject to earlier termination in certain circumstances. These transactions were in the normal course of operations and were measured at the exchange amount. Certain directors of the Company during the period were common directors with those of Encana.

The Company has the following related party transactions with Encana to the date of the secondary public offering:

	For the period May 27, 2014 to December 31, 2014
Royalties and lease rentals revenues	$ 14.3
Office lease rental	0.3
	$ 14.0

RISK MANAGEMENT

The Royalty Assets expose the Company to some of the same industry risks and conditions faced by all oil and gas companies. The most significant are those that directly impact production volumes and commodity pricing and include the following:

OPERATING RISK

- Fluctuations in commodity prices and quality differentials as a result of weather patterns, world and North American market forces and shifts in the balance between supply and demand for crude oil, NGLs and natural gas;
- Access to pipelines or other transportation methods for bringing crude oil, NGLs and natural gas to market;
- Variations in currency exchange rates relative to commodity prices;
- Risks associated with fluctuations in accruals due to reliance on historical production information and delays of actual production receipts obtained from lessees and matching to government reporting databases;
- Imprecision of reserve estimates and uncertainty of depletion and recoverability of reserves. The reserves will deplete over time through continued production and the Company, industry partners and royalty payors may not be able to replace these reserves on an economic basis;
- Industry activity levels and competition for land, goods and services, and qualified personnel;
- Stock market volatility and the ability to access sufficient capital from internal and external sources;
- Risks associated with volatility in global financial markets;
- Risks associated with the Credit Facility, including compliance with the agreements and related covenants;
- Operational or marketing risks resulting in delivery interruptions, delays or unanticipated production declines; and
- Changes in government regulations, taxation, and royalties.

The Company employs the following strategies to mitigate these risks, including:

- Not undertaking any direct development or operational activities associated with production;
- A compliance program to collect royalties on production from the Royalty Assets in accordance with the terms of the various leases and agreements;
- Maintaining a focus on controlling costs to maximize profitability;

- A conservative approach to debt as demonstrated by the absence of any current debt issuance or use of the Credit Facility; and
- An active contract management strategy to ensure appropriate allocation of risk and adherence to all terms and conditions by counterparties.

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 with 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 has 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 Assets in accordance with the prices obtained by the royalty payor and that unwarranted or excessive deductions are not being taken.

A substantial portion of the Company's accounts receivable are from leases and other agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's leasing arrangements typically provide for termination of the lease in the event of non-payment of royalties which would result in a return of the oil and gas rights to the Company. In addition, the Company has the ability to take its royalty share of production in-kind, thereby further mitigating credit risk.

As at December 31, 2014, there were no counterparties 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 revenues is the total carrying value. For the period presented, the Company does not have an allowance for doubtful accounts nor provides for any doubtful accounts as there is negligible history of default.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company has access to funding alternatives through the Credit Facility. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At December 31, 2014 the Company had working capital of $69.0 million including cash of $63.1 million.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and Operating and Revolving Facilities. The primary use of funds are administrative expenses, cash taxes, dividends, and freehold mineral taxes.

The Company's royalty revenues provide significant liquidity with high operating netbacks and discretionary capital commitments.

ENVIRONMENTAL REGULATION AND RISK

The oil and gas industry is subject to environmental regulations pursuant to provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of regulatory authorities. Liability for abandonment and reclamation costs on the Royalty Assets rests with the third party lessees.

Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties. It is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue. 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 the Company's 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 23, 2015 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 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 IN APPLYING ACCOUNTING POLICIES

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 Financial Statements.

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 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 exploration and evaluation to royalty assets or to expense capitalized exploration and evaluation assets requires management to make certain judgments based on the estimated proved reserves used in the determination of an area's technical feasibility and commercial viability.

Business Combination

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". In connection with the Acquisition described in Notes 1 and 5 in the annual financial statements, the Acquired Business was acquired by the Company from Encana. The Company was a wholly owned subsidiary and controlled by Encana prior to closing the IPO and immediately subsequent to closing. Business combinations involving entities under common control are outside the scope of IFRS 3 "Business Combinations". IFRS provides no guidance on the accounting for these types of transactions. As a result the Company was required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. Management determined that the predecessor values from date of transaction method to be the most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without an adjustment to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities are recorded as a Reserve from Common Control in Shareholders' Equity.

CRITICAL ACCOUNTING ESTIMATES

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 reserves estimates could result in the recognition of a higher DD&A charge to net earnings in future periods.

All of PrairieSky's oil and gas reserves and resources are evaluated and reported on by independent qualified reserves evaluators ("IQRE"). 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 financial statements could be material.

PrairieSky's royalty assets relating to crude oil, NGLs and natural gas plus other mineral rights and exploration and evaluation costs, 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 Fee Lands 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.

Share-Based Compensation

The Company's share-based compensation plans include a Stock Option Plan, Restricted Share Unit ("RSU") Plan, Performance Share Unit ("PSU") Plan, and a Deferred Share Unit ("DSU") Plan. 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. Judgments include which valuation model is most appropriate to estimate fair value of awards granted. Estimates and assumptions are then used in the valuation model to determine the fair value.

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 credit to Shareholder's Equity. 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. The assumptions used by the Company are discussed in Note 17 to the audited annual Financial Statements.

For the cash-settled RSU, PSU and DSU Plans, fair values are determined 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 credit to liabilities. Changes in the fair values are recognized as compensation costs in the period they occur. The fair value of RSUs at the grant date are estimated based on the volume weighted average trading price on the TSX for five trading days before one business day prior to the date of grant, except for the initial grant which was based on the IPO price. Judgment is also required to estimate the number of RSUs 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 goodwill 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 was 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 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.

Related to the Acquisition under common control, the Company qualifies for the initial recognition exemption under IAS 12 "Income Taxes" and a deferred tax asset has not been recognized related to the excess of the tax pools acquired relative to the carrying value of the net assets transferred from Encana. The unrecognized deferred income tax asset is being amortized based on the net tax pool and DD&A claims calculated for the period.

RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Issued Not Yet Adopted

On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" which is the result of the joint project with Financial Accounting Standards Board. The new standard replaces the two main recognition standards IAS 18, "Revenue" and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue and becomes effective January 1, 2017. The Company is currently assessing the potential impact of the standard on the Company's Financial Statements.

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 new standard and amendments are not expected to have a material impact on the Company's 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.

As permitted, the Company's evaluation limited the scope to design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") and excludes controls, policies and procedures of a business that the issuer acquired not more than 365 days before the last day of the period covered by this filing. The acquisition of Private Co. closed on December 19, 2014. Financial information with respect to the Private Co. acquisition is discussed in Note 10 of the audited annual Financial Statements.

Changes to the Company's ICFR since September 30, 2014 relate to the acquisition of Private Co. The Company is currently assessing processes and controls to ensure compliance with its policies.

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

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

DISCLOSURE CONTROLS AND PROCEDURES

The CEO and CFO have designed, or caused to be designed under their supervision, 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 filing are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO are responsible for establishing and maintaining ICFR. They have designed, or caused to be designed under their supervision, ICFR as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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 Cash Flow, Netback, Funds from Operations, Adjusted Net Earnings and Comprehensive Income Per Share basic and diluted and Adjusted Funds from Operations Per Share basic and diluted. Management's use of these measures is discussed further below.

"Operating Cash Flow" represents the cash margin for product sold. Operating Cash Flow is calculated as revenues excluding other revenues, less freehold mineral taxes and administrative expenses. Operating Cash Flow provides a consistent measure of the cash generating performance of the Royalty Assets to assess the comparability of the underlying performance between years.

"Netback" represents the cash margin for product sold on a BOE basis. Netback is calculated using Operating Cash Flow, excluding other revenues, on a per BOE basis. Netback is used to assess the ability to provide cash generating performance per unit of product sold. Netback 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 netback calculations.

FUNDS FROM OPERATIONS

Funds from Operations is defined as cash from operating activities, before net change in non-cash working capital, and including lease issuance bonuses and financing costs. Funds from Operations is utilized by management to evaluate the ability of the Company to generate cash from operations. This is considered a measure of operating performance as it demonstrates the Company's ability to fund capital expenditures, and meet the intention of the Company to distribute cash flow on an ongoing basis to shareholders as dividends. Such a measure provides a useful indicator of the Company's operations on an ongoing basis by eliminating certain non-cash charges. Below is a reconciliation of Funds from Operations to Cash From (Used in) Operating Activities, which is the most comparable IFRS measure.

($ millions)	**Three months ended December 31, 2014**	**For the period May 27, 2014 to December 31, 2014**
Cash From Operating Activities	**$ 76.7**	**$ 184.9**
Add back (deduct):		
Net Change in Non-cash Working Capital	**(17.7)**	**(26.0)**
Financing Costs	**-**	**(0.2)**
Funds From Operations	**$ 59.0**	**$ 158.7**

ADJUSTED PER COMMON SHARE CALCULATIONS – BASIC AND DILUTED

Adjusted Per Share calculations provide useful information of the Company's performance given the fact that the Company was in existence since January 1, 2014, but only commenced operations on May 27, 2014. Adjusted Basic Common Shares outstanding reflect the weighted average number of shares issued and outstanding after the Acquisition of 130.0 million shares, as if it had occurred on January 1, 2014, and as at December 31, 2014 which was 149.3 million shares and Adjusted Diluted Common Shares outstanding reflect the impact of stock options. Adjusted Basic Per Common Share is calculated by weighting the outstanding Common Shares over the entire 365 day year ended December 31, 2014. Below is a computation of Adjusted Net Earnings and Comprehensive Income Per Common Share basic; Adjusted Net Earnings and Comprehensive Income Per Common Share diluted; Adjusted Funds from Operations Per Common Share basic; Adjusted Funds from Operations Per Common Share diluted. Calculation of Net Earnings Per Common Share is disclosed in Note 16 of the audited annual Financial Statements.

Adjusted Net Earnings and Comprehensive Income Per Common Share

The following table presents the computation of Adjusted Net Earnings and Comprehensive Income per Common Share:

	Three months ended December 31, 2014	**For the period May 27, 2014 to December 31, 2014**
Net Earnings and Comprehensive Income	**$ 50.7**	**$ 136.3**
Number of Common Shares:		
Common Shares outstanding – basic	**132.5**	**130.2**
Effect of dilutive securities	**0.1**	**0.1**
Common Shares outstanding – diluted	**132.6**	**130.3**
Adjusted Net Earnings and Comprehensive Income per Common Share Basic[1] and Diluted[2]	**$ 0.38**	**$ 1.05**

(1) Adjusted Net Earnings and Comprehensive Income per Common Share is calculated using the weighted average number of PrairieSky common shares outstanding assuming the shares issued relating to the Acquisition had occurred January 1, 2014.

(2) Adjusted Net Earnings and Comprehensive Income per Common Share is calculated using the weighted average number of PrairieSky common shares outstanding assuming the shares issued relating to the Acquisition had occurred January 1, 2014, giving effect to stock options.

Adjusted Funds from Operations Per Common Share

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

	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Funds from Operations	$ 59.0	$ 158.7
Number of Common Shares:		
Common Shares outstanding – basic	132.5	130.2
Effect of dilutive securities	0.1	0.1
Common Shares outstanding – diluted	132.6	130.3
Adjusted Funds from Operations per Common Share Basic(1) and Diluted(2)	$ 0.44	$ 1.22

(1) Adjusted Funds from Operations per Common Share is calculated using the weighted average number of PrairieSky common shares outstanding assuming the shares issued relating to the Acquisition had occurred January 1, 2014.
(2) Adjusted Funds from Operations per Common Share is calculated using the weighted average number of PrairieSky common shares outstanding assuming the shares issued relating to the Acquisition had occurred January 1, 2014, giving effect to stock options.

FUNDS FROM OPERATIONS PER COMMON SHARE CALCULATIONS – BASIC AND DILUTED

Funds from Operations Per Common Share

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

	Three months ended December 31, 2014	For the period May 27, 2014 to December 31, 2014
Funds from Operations	$ 59.0	$ 158.7
Number of Common Shares:		
Common Shares outstanding – basic	132.5	77.9
Effect of dilutive securities	0.1	0.1
Common Shares outstanding – diluted	132.6	78.0
Funds from Operations per Common Share Basic(1) and Diluted(2)	$ 0.44	$ 2.04

(1) Funds from Operations per Common Share is calculated using the weighted average number of Common Shares outstanding from January 1, 2014 to December 31, 2014.
(2) Funds from Operations per Common Share is calculated using the weighted average number of Common Shares outstanding from January 1, 2014 to December 31, 2014, giving effect to stock options.

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at December 31, 2014, 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;
- industry drilling, development and licensing activity on the Royalty Assets, our exposure in emerging opportunities, and the potential impact of thereof on production and reserves;
- possible revisions to accrued estimates based on receipt of actual results;
- expected impacts of accounting standards, including those announced but not yet adopted;
- expected impacts including production and cash flow from acquisitions;
- the expectation that there will be no operating costs, capital costs, environmental liabilities, or abandonment and reclamation obligations associated with development of the Royalty Assets**;**
- 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 Assets; and
- amounts and rates of income taxes and timing of payment thereof.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to the Acquisition. These risks and uncertainties include risks relating to the potential for disputes to arise with Encana, and limited ability to recover indemnification from Encana under the PSA and other certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form 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 Assets to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Assets 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 Assets 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 Assets; the willingness and financial capability of the lessees and working interest owners to continue to develop and invest additional capital in the Royalty Assets; the ability of the lessees and working interest owners on the Royalty Assets to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Assets; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Assets through acquisitions and third party development; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the operators of the properties in which PrairieSky has a royalty interest in, to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, if any, the ability of PrairieSky or a third party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the PrairieSky's properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, general and administrative expenses and income tax expenses; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against 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 oil and natural gas properties; and future crude oil, natural gas and NGL prices and currency, exchange and interest rates.

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

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

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

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

CONVERSIONS OF NATURAL GAS TO BOE

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

CURRENCY AND REFERENCES TO PRAIRIESKY

All information included in this MD&A, and the audited annual Financial Statements is shown on a Canadian dollar basis. All proceeds from divestitures are provided on a before-tax 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 audited annual Financial Statements and notes thereto, and PrairieSky’s Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky’s website at www.prairiesky.com.