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PrairieSky Royalty Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2015 ("Financial Statements"). This MD&A was prepared and is dated February 29, 2016.

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, and Funds from Operations per Share basic and diluted. Further information can be found in the Non-GAAP Measures section of this MD&A, including a reconciliation of Cash from Operating Activities to Funds from Operations.

The following volumetric measures may be abbreviated throughout this MD&A: barrel ("bbl") per day ("bbls/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 AND OPERATIONAL RESULTS

($ millions, unless otherwise noted)	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	For the period from May 27, 2014 to December 31, 2014(5)
FINANCIAL				
Revenues	**$ 44.8**	$ 69.6	**$ 215.0**	$ 198.7
Funds from Operations(1)	**60.0**	59.0	**177.8**	158.9
Per Share – basic (2)	**0.36**	0.44	**1.14**	2.04
Per Share – diluted(2)	**0.36**	0.44	**1.14**	2.04
Net Earnings and Comprehensive Income	**8.0**	50.7	**63.0**	136.3
Per Share – basic(2)	**0.05**	0.38	**0.40**	1.75
Per Share – diluted(2)	**0.05**	0.38	**0.40**	1.75
Dividends declared(3)	**58.6**	43.2	**206.5**	98.3
Per Share	**0.3250**	0.3174	**1.30**	0.7406
Acquisitions, including non-cash consideration	**1,463.2**	465.7	**1,525.1**	477.2
Working Capital	**210.3**	71.4	**210.3**	71.4
Shares Outstanding				
Shares outstanding at period end	**228.2**	149.3	**228.2**	149.3
Weighted average - basic	**168.2**	132.5	**155.7**	77.9
Weighted average - diluted	**168.4**	132.6	**156.0**	78.0
OPERATIONAL				
Production Volumes				
Natural Gas (MMcf/d)	**62.2**	58.6	**60.9**	50.0
Crude Oil (bbls/d)	**5,432**	6,069	**5,484**	6,429
NGL (bbls/d)	**1,852**	1,444	**1,591**	1,487
Total (BOE/d)(4)	**17,651**	17,280	**17,225**	16,249
Realized Pricing				
Natural Gas ($/Mcf)	**$ 2.45**	$ 3.68	**$ 2.67**	$ 4.26
Crude Oil ($/bbl)	**40.74**	67.41	**47.80**	81.90
NGL ($/bbl)	**22.65**	36.70	**23.01**	55.71
Total ($/BOE)(4)	**$ 23.59**	$ 39.24	**$ 26.80**	$ 50.62
Operating Cash Flow Netback(1)	**$ 18.29**	$ 33.69	**$ 21.14**	$ 44.54
Funds from Operations per BOE(1)	**$ 36.95**	$ 37.11	**$ 28.28**	$ 44.65
Natural Gas Price Benchmarks				
AECO ($/Mcf)	**$ 2.65**	$ 4.01	**$ 2.75**	$ 4.30
Foreign Exchange Rate (US$/CAD$)	**0.7489**	0.8806	**0.7820**	0.9031
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**41.71**	73.39	**48.61**	89.84
Edmonton Light Sweet ($/bbl)	**52.16**	75.23	**56.97**	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.
(3) A dividend of $0.10833 per common share was declared on December 17, 2015. The dividend was paid on January 15, 2016 to shareholders of record as at December 31, 2015.
(4) See “Conversions of Natural Gas to BOE”.
(5) The Company was incorporated on November 27, 2013 and commenced operations on May 27, 2014. The term “YE 2014” is the period from May 27, 2014 to December 31, 2014. Basic and diluted weighted average common shares are based on the three and twelve month periods ended December 31, 2014.

RESULTS OVERVIEW

HIGHLIGHTS

During the three month period ended December 31, 2015 ("Q4 2015"), PrairieSky reported:

- Completion of the acquisition of certain royalty assets from Canadian Natural Resources Limited ("Canadian Natural") on December 16, 2015 (the "Transaction"). The consideration on the Transaction was comprised of 44,444,444 common shares of the Company and $680 million in cash (prior to closing adjustments). To finance the cash portion of the purchase price, PrairieSky completed a non-brokered private placement of 26,976,000 subscription receipts on December 2, 2015 for gross proceeds of approximately $680 million. In conjunction with the closing of the Transaction, each holder of the subscription receipts received one common share of PrairieSky for each subscription receipt held. The Transaction consists of approximately 5.4 million acres of royalty lands throughout western Canada, including 2.2 million acres of fee simple mineral title land, and production of approximately 6,000 BOE per day (55% oil and liquids).
- Funds from operations of $60.0 million and net earnings of $8.0 million.
- Average production of 17,651 BOE per day consisting of crude oil production volumes of 5,432 bbls per day, average NGL production volumes of 1,852 bbls per day and average natural gas production volumes of 62.2 MMcf per day.
- Revenue totaled $44.8 million, consisting of $38.3 million of product revenue, $1.8 million of lease rental income, $1.3 million of bonus consideration and $3.4 million of other income.
- Cash and cash equivalents of $190.8 million and positive working capital of $210.3 million at December 31, 2015. Cash and cash equivalents decreased from $203.8 million at September 30, 2015, as a result of the cash acquisitions noted below. Positive working capital increased from September 30, 2015, primarily as a result of a current income tax recovery in the period.
- Cash adminstrative expenses of $6.4 million ($3.94 per boe) decreased 7% from $6.9 million ($4.34 per boe) in Q4 2014. Cash administrative expenses includes $0.7 million or $0.43 per boe of costs related to the Transaction.
- Capital asset acquisitions, excluding the Transaction, of $10.2 million funded from cash on hand.
- Dividends declared of $58.6 million ($0.3250 per share).

During the year ended December 31, 2015 ("YE 2015"), PrairieSky reported:

- Funds from operations of $177.8 million and net earnings of $63.0 million.
- Average production of 17,225 BOE per day consisting of crude oil production volumes of 5,484 bbls per day, average NGL production volumes of 1,591 bbls per day and average natural gas production volumes of 60.9 MMcf per day.
- Revenue totaled $215.0 million, consisting of $168.5 million of product revenue, $8.6 million of lease rental income, $33.3 million of bonus consideration and $4.6 million of other income.
- Completion of a bought deal prospectus offering of 6.3 million common shares issued for net proceeds of $189.5 million on July 7, 2015.
- Capital asset acquisitions, excluding the Transaction, of $55.9 million funded from cash on hand.
- Dividends declared of $206.5 million ($1.30 per share).

BUSINESS OVERVIEW

PRAIRIESKY ROYALTY

PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 7.7 million acres with petroleum and/or natural gas rights, an additional 1.1 million acres in coal only titles, approximately 6.6 million acres of GORR Lands (as defined herein) and 0.4 million of 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 mineral rights 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) royalty interests, including overriding royalty interests, and gross overriding royalty interests ("GORR Interests") on lands ("GORR Lands") across Western Canada.

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

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

PrairieSky has royalty interests in approximately 35,000 wells and receives royalties from over 360 industry payors. The Company receives approximately 79% of its monthly revenue from 25 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate YE 2015 was 6.5%. Some royalty agreements allow for the deduction of certain costs.

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

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

Costs incurred by the Company are primarily 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 receipts.

Management's discussion and analysis for this reporting period focuses on the three and twelve month periods ended December 31, 2015.

PRAIRIESKY'S 2016 OUTLOOK

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The current economic environment is challenging and uncertain amidst low commodity prices, volatile financial markets, limited access to capital markets, increasing corporate tax rates and changes to legislative and regulatory frameworks in the jurisdictions in which the Company carries on business. Management continues to deploy its risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, paying close attention to administrative costs and a disciplined approach to acquisitions. PrairieSky has a strong balance sheet and continues to employ a conservative capital structure and monitor administrative expenses and capital expenditures. As at December 31, 2015, PrairieSky had available undrawn capacity under the Credit Facility, as defined herein, of $100 million and positive working capital of $210.3 million with $190.8 million in cash.

On February 29, 2016, the Company announced that the Board has adjusted the monthly dividend from $1.30 per common share on an annualized basis to $0.06 per common share per month or $0.72 per common share on an annualized basis, effective for the March 31, 2016 record date.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third party guidance for anticipated capital expenditures during 2016 and beyond. Given PrairieSky has no operational control over capital expenditures on its lands, it is difficult to predict activity levels with a high degree of certainty.

PrairieSky has royalty interests in approximately 35,000 wells and receives royalty revenue from over 360 industry payors. This diversity, along with an active royalty compliance program, assists in reducing collection and credit risk. The Company takes in kind certain royalty volumes which, in conjunction with the above, further assists in managing collection and credit risk.

PRAIRIESKY'S STRATEGY

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

PRODUCTION

PRODUCTION VOLUMES

(average daily)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Natural Gas (MMcf/d)	**62.2**	58.6	**60.9**	50.0
Crude Oil (bbls/d)	**5,432**	6,069	**5,484**	6,429
NGL (bbls/d)	**1,852**	1,444	**1,591**	1,487
Total Production (BOE/d)	**17,651**	17,280	**17,225**	16,249

PrairieSky's average daily production was 31% oil, 10% NGL and 59% natural gas for Q4 2015 and 32% oil, 9% NGL and 59% natural gas for the YE 2015 as compared to the same periods in 2014 when the production split was 35% oil, 8% NGL and 57% natural gas for Q4 2014 and 40% oil, 9% NGL and 51% natural gas for YE 2014. There is a lag between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this lag, PrairieSky's production volumes and revenue include both positive and negative adjustments related to prior periods.

For the three months ended December 31, 2015

Natural gas production volumes for Q4 2015 of 62.2 MMcf per day were 6% higher than the 58.6 MMcf per day reported in Q4 2014 due to incremental new drilling and acquired production volumes from the acquisition of a private royalty business ("Private Co.") late in 2014 and other acquisitions in the current year outweighing the effect of natural declines. Natural gas production volumes have also been impacted by positive volume adjustments from prior periods.

Crude oil production volumes for Q4 2015 of 5,432 bbls per day were 10% lower than the 6,069 bbls per day reported in Q4 2014 due to natural declines and pricing on sliding scale royalties outweighing the impact of new incremental drilling and acquired production.

NGL production volumes for Q4 2015 of 1,852 bbls per day have increased 28% from 1,444 bbls per day reported in Q4 2014. The increase in NGL volumes period over period is due to acquisitions and incremental volumes due to modifications at a third party facility outweighing the impact of activity declines.

Q4 2015 production results include 15 days of production from the assets acquired in the Transaction, resulting in an increase of 978 bbls per day (55% liquids) for the quarter.

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

For the year ended December 31, 2015

YE 2015 natural gas production volumes of 60.9 MMcf per day were 22% higher than the 50.0 MMcf per day reported in YE 2014 due to 2015 incremental and acquired volumes. Natural gas production volumes have also been impacted by positive volume adjustments from prior periods.

YE 2015 crude oil production volumes of 5,484 bbls per day were 15% lower than the 6,429 bbls per day reported in YE 2014 due to natural declines and pricing on sliding scale royalties outweighing the impact of new incremental drilling and acquired production. Crude oil production volumes have also been impacted by negative volume adjustments from prior periods.

YE 2015 NGL production volumes of 1,591 bbls per day were 7% higher than the 1,487 bbls per day reported in YE 2014 due to incremental drilling and acquisitions outweighing natural declines.

FINANCIAL RESULTS

REVENUES

Revenues by Product ($ millions)	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	For the period from May 27, 2014 to December 31, 2014
Natural Gas	**$ 14.1**	$ 19.9	**$ 59.5**	$ 46.7
Crude Oil	**20.4**	37.6	**95.7**	115.3
NGL	**3.8**	4.9	**13.3**	18.1
	38.3	62.4	**168.5**	180.1
Other Revenues ($ millions)				
Lease Rental Income	**$ 1.8**	$ 1.7	**$ 8.6**	$ 7.2
Bonus Consideration	**1.3**	4.5	**33.3**	8.7
Other Income	**3.4**	1.0	**4.6**	2.7
	6.5	7.2	**46.5**	18.6
Total Revenues	**$ 44.8**	$ 69.6	**$ 215.0**	$ 198.7

Revenues by Royalty Classification *($ millions)*	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	For the period from May 27, 2014 to December 31, 2014
Fee Lands	**$ 30.8**	$ 59.1	**$ 140.2**	$ 174.0
GORR Interests	**7.5**	3.3	**28.3**	6.1
Royalty Revenues	**38.3**	62.4	**168.5**	180.1
Other Revenues	**6.5**	7.2	**46.5**	18.6
Total Revenues	**$ 44.8**	$ 69.6	**$ 215.0**	$ 198.7

The Company's average royalty rate for Q4 2015 and YE 2015 were 6.3% and 6.5%, respectively, compared to 8.7% and 9.0%, respectively, for the comparable periods in 2014. The decrease in the average royalty rate is a combination of the increased weighting to GORR Interests on the acquisition of Private Co., which carry a lower average royalty rate, and the sliding scale impact on royalties. During the three months and year ended December 31 2015, royalty revenues were $38.3 million and $168.5 million, respectively, compared to $62.4 million and $180.1 million for the same periods in 2014. The decrease of 39% for the current quarter is a result of reduced realized product prices and natural declines more than offsetting acquisitions and incremental drilling on PrairieSky lands.

In Q4 2015 and YE 2015, revenues from the Lessor Interests were $30.8 million or 80% and $140.2 million or 83%, respectively, of total royalty revenues. Revenues from GORR Interests were $7.5 million or 20% and $28.3 million or 17%, respectively, of total royalty revenues for the same time periods. In the comparative periods, $3.3 million or 5% and $6.1 million or 3%, respectively, of royalty revenues were generated from GORR Interests. The increase in revenues generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of the acquisition of Private Co. in late December 2014.

In Q4 2015, the Company averaged realized crude oil prices of $40.74 per bbl, NGL prices of $22.65 per bbl and natural gas prices of $2.45 per Mcf. Prices for all products were down significantly from Q4 2014 when the Company averaged realized crude prices of $67.41 per bbl, NGL prices of $36.70 per bbl and $3.68 per Mcf for natural gas. Realized pricing for Q4 2015 trended downward with benchmark pricing for all products as compared to Q4 2014. YE 2015, the Company averaged realized crude oil prices of $47.80 per bbl, NGL prices of $23.01 per bbl and natural gas prices of $2.67 per Mcf. Commodity prices remained low throughout 2015 due to global supply and demand imbalances.

Royalty compliance recoveries are the cash payments received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. Cash received from compliance recoveries can cover a number of periods. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain. The Company follows the accrual method of accounting and, as a result, portions of compliance recoveries will have been recognized in prior periods in relation to when the production occurred. For Q4 2015 and YE 2015, the Company collected $1.8 million and $9.3 million, respectively, in compliance recoveries.

Other revenues consist primarily of lease rental income from leases that are currently issued in respect of certain Fee Lands, lease bonus consideration and non-performance fees. Bonus consideration revenue for Q4 2015 and YE 2015 was $1.3 million (Q4 2014 - $4.5 million) and $33.3 million (YE 2014 - $8.7 million), respectively. Both the amount and timing of bonus consideration revenue can vary significantly as it relates to the unique circumstances of each transaction.

OPERATING RESULTS

	For the three months ended December 31, 2015		For the three months ended December 31, 2014	
	Operating Cash Flow[(1)] ($ millions)	**Total Netback[(1)] ($/BOE)**	**Operating Cash Flow[(1)] ($ millions)**	**Total Netback[(1)] ($/BOE)**
Revenues[(2)]	**$ 38.3**	**$ 23.59**	$ 62.4	$ 39.24
Administrative Expenses	**(6.7)**	**(4.13)**	(7.6)	(4.75)
Freehold Mineral Taxes	**(1.9)**	**(1.17)**	(1.3)	(0.80)
Operating Cash Flow/Netback	**$ 29.7**	**$ 18.29**	$ 53.5	$ 33.69

	For the year ended December 31, 2015		For the period from May 27, 2014 to December 31, 2014	
	Operating Cash Flow[(1)] ($ millions)	**Total Netback[(1)] ($/BOE)**	**Operating Cash Flow[(1)] ($ millions)**	**Total Netback[(1)] ($/BOE)**
Revenues[(2)]	**$ 168.5**	**$ 26.80**	$ 180.1	$ 50.62
Administrative Expenses	**(27.1)**	**(4.31)**	(16.0)	(4.49)
Freehold Mineral Taxes	**(8.5)**	**(1.35)**	(5.7)	(1.59)
Operating Cash Flow/Netback	**$ 132.9**	**$ 21.14**	$ 158.4	$ 44.54

	Three months ended December 31, 2015	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Production Volumes (BOE/d)[(3)]	**17,651**	17,280	**17,225**	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, 2015

Operating Cash Flow was $29.7 million and was impacted by:

- Average total realized price of $23.59 per BOE on production;
- Average total production volumes of 17,651 BOE per day;
- Royalty revenue of $38.3 million;
- Administrative expenses of $6.7 million; and
- Freehold mineral tax of $1.9 million.

For the year ended December 31, 2015

Operating Cash Flow was $132.9 million and was impacted by:

- Average total realized price of $26.80 per BOE on production;
- Average total production volumes of 17,225 BOE per day;
- Royalty revenue of $168.5 million;
- Administrative expenses of $27.1 million (cash administrative expenses of $23.4 million); and
- Freehold mineral tax of $8.5 million.

Freehold mineral tax is levied on an annual basis on the value of crude oil and natural gas production from non-Crown lands. Throughout the period, it is impacted by production estimates and prices. For Q4 2015 and YE 2015 freehold mineral taxes and Saskatchewan acreage tax averaged 5.0% of Royalty Revenue compared to 2.1% and 3.2% in the comparable 2014 periods. Amounts recorded in 2015 have been adjusted to reflect 2014 actuals.

ADMINISTRATIVE

($ millions)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Salaries and Benefits	**$ 3.0**	$ 3.4	**$ 13.9**	$ 7.9
Share-Based Compensation	**0.6**	0.7	**4.7**	2.7
Office Expense	**1.7**	0.7	**4.8**	1.7
Public Company Expense	**0.2**	0.6	**1.2**	0.9
Information Technology and Other	**0.5**	0.6	**1.8**	1.2
Transaction Costs	**0.7**	1.6	**0.7**	1.6
Total Administrative Expense	**$ 6.7**	7.6	**$ 27.1**	16.0

	For the three months ended December 31, 2015		**For the three months ended December 31, 2014**	
	($ millions)	**($/BOE)(1)**	**($ millions)**	**($/BOE)(1)**
Administrative – cash	**$ 6.4**	**$ 3.94**	$ 6.9	$ 4.34
Administrative – non-cash	**0.3**	**0.19**	0.7	0.44
Total Administrative Expense	**$ 6.7**	**$ 4.13**	$ 7.6	$ 4.78

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

	For the year ended December 31, 2015		**For the period from May 27, 2014 to December 31, 2014**	
	($ millions)	**($/BOE)(1)**	**($ millions)**	**($/BOE)(1)**
Administrative – cash	**$ 23.4**	**$ 3.72**	$ 13.3	$ 3.73
Administrative – non-cash	**3.7**	**0.59**	2.7	0.76
Total Administrative Expense	**$ 27.1**	**$ 4.31**	$ 16.0	$ 4.49

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

PrairieSky is committed to cost control in its business. Administrative expenses of $4.13 per BOE in Q4 2015 were down 14% from $4.78 per BOE in Q4 2014 as a result of lower transaction costs for the business combination recorded in 2015 compared to the 2014 acquisition of Private Co. Even with significant growth in the Company's land position and asset base, administrative expenses have remained flat, excluding transaction costs, between Q4 2014 and Q4 2015. YE 2015 administrative expenses of $4.31 per BOE YTD were down 4% from YE 2014 administrative expenses of $4.49 per BOE. Administrative expenses in YE 2015 include increased non-cash administrative expenses related to the 2015 grant under the share-based compensation plans. These expenses are impacted by the closing share price at period end and as such, are subject to variability. Of the increases in compensation and share-based compensation costs for the YE 2015 period, $1.7 million relates to severances and retiring allowances.

Of the total share-based compensation for Q4 2015, $0.3 million (Q4 2014 - $0.2 million) related to the stock option plan and there was $0.4 million of expense (Q4 2014 - $0.5 million) related to the restricted share units ("RSU") and performance share units ("PSU") plans. The Company had a recovery of $0.1 million (Q4 2014 - nil) related to the Company's Deferred Share Unit ("DSU") plan. The majority of Directors elected to receive their annual Board of Directors ("Board") and Committee retainers and fees in the form of DSUs.

Of the total share-based compensation for YE 2015, $1.3 million (YE 2014 - $0.6 million) related to the stock option plan and $3.1 million (YE 2014 - $1.4 million) related to the RSU and PSU plans. The Company recorded $0.3 million of expense (YE 2014 - $0.7 million) related to the DSU plan.

Share-based compensation expense increased in YE 2015 as a result of the grant of 354,686 stock options, 84,513 PSUs, 130,241 RSUs and 18,831 DSUs during the year. These grants relate to the Company's 2015 annual compensation cycle for directors, officers and employees. For further explanation refer to Note 15 of the audited financial statements for the year ended December 31, 2015.

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

($ millions, except per BOE amounts)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Depletion, Depreciation and Amortization	**$ 25.4**	$ 12.4	**$ 96.3**	$ 24.8
$/BOE	**$ 15.64**	$ 7.80	**$ 15.32**	$ 6.97

The Company depletes its royalty assets using the unit-of-production method based on the total proved and probable reserves of its Royalty Properties. Corporate assets are depreciated on a straight line basis. DD&A per BOE is higher for both Q4 2015 and YE 2015 due to the increase in royalty assets primarily due to the acquisition of Private Co. in December 2014.

EXPLORATION AND EVALUATION EXPENSE ("E&E")

($ millions, except per BOE amounts)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Exploration and Evaluation Expense	**$ 0.9**	**$ -**	**$ 2.2**	**$ -**
$/BOE	**$ 0.55**	**$ -**	**$ 0.34**	**$ -**

During the year ended December 31, 2015, $2.2 million of costs associated with expired mineral leases were recognized as an expense (YE 2014 – nil). The increase in expense is a result of timing of lease expiries and the increase in crown land acres acquired from Private Co. in December 2014.

FINANCE

($ millions)	**Three months ended December 31, 2015**	**Three months ended December 31, 2014**	**Year ended December 31, 2015**	**For the period from May 27, 2014 to December 31, 2014**
Finance Income	**$ (0.7)**	$ (0.4)	**$ (1.8)**	$ (0.7)
Finance Expense	**0.1**	0.1	**0.6**	0.3
Net Finance Items	**$ (0.6)**	$ (0.3)	**$ (1.2)**	$ (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 stand-by fees. Finance income increased 75% in Q4 2015 compared to Q4 2014 as a result of the increased cash balance from the financing completed early in the third quarter of the year. For additional information, refer to the "Results Overview" section of this MD&A.

INCOME TAX

($ millions)	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	For the period from May 27, 2014 to December 31, 2014
Current Tax Expense (Recovery)	**$ (23.0)**	$ 2.1	**$ (7.3)**	$ 20.3
Deferred Tax Expense (Recovery)	**25.6**	(4.2)	**26.5**	(4.0)
Income Tax Expense (Recovery)	**$ 2.6**	$ (2.1)	**$ 19.2**	$ 16.3

For the year ended December 31, 2015, the Company's effective tax rate was approximately 23.4% (YE 2014 – 11%). The Company's effective tax rate differs from the Canadian statutory tax rate of 26% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses. The Company is in a current tax recovery position at December 31, 2015 due to the tax pools associated with the assets acquired in the Transaction on December 16, 2015.

The approximate amounts of tax pools available are:

(millions)	Year ended December 31, 2015	Year ended December 31, 2014
Canadian oil and gas property expense	**$ 1,526.7**	**$ 484.1**
Canadian development expense	**0.3**	**0.5**
Canadian exploration expense	**16.5**	-
Undepreciated capital cost	**1.1**	**0.8**
Non-capital loss carryforwards	**2.8**	**7.8**
Share issue costs	**7.4**	-
	$ 1,554.8	**$ 493.2**

NET EARNINGS

Net earnings for Q4 2015 and YE 2015 were $8.0 million ($0.05 per share, basic and diluted) and $63.0 million ($0.40 per share, basic and diluted), respectively. Net earnings for Q4 2014 and YE 2014 were $50.7 million ($0.38 per share, basic and diluted) and $136.3 million ($1.75 per share, basic and diluted). The decrease in net earnings in the current quarter is due to the combination of higher depletion expense and lower revenues.

ACQUISITIONS

During Q4 2015, the Company completed acquisitions with an aggregate cost of $1,463.2 million (Q4 2014 - $465.7 million) comprised of royalty assets of $440.9 million (Q4 2014 - $365.6 million) and E&E assets of $1,022.3 million (Q4 2014 - $100.1 million).

Included in the Q4 2015 acquisitions noted above is the Transaction, whereby PrairieSky acquired certain royalty assets from Canadian Natural. The Transaction added $435.3 million in royalty assets and $1,016.7 million in E&E assets, in addition to $277.6 million in goodwill and $68.0 million in deferred tax liability. Total consideration for the Transaction was $1,661.6 million, with $984.9 million in share consideration and $676.6 million in cash consideration after considering closing adjustments. For additional information, see the "Results Overview" section of this MD&A.

YE 2015 asset acquisitions of $1,525.1 million (YE 2014 - $477.2 million) were comprised of royalty assets of $480.2 million (YE 2014 - $376.2 million) and E&E assets of $1,044.9 million (YE 2014 - $101.0 million). The value of assets received in lieu of bonus consideration YE 2015 was $15.7 million and in lieu of a non-performance fee was $1.0 million (YE 2014 - $1.6 million in lieu of a non-performance fee). In addition, during YE 2015, share consideration of $0.5 million was exchanged for a GORR interest.

LIQUIDITY AND CAPITAL RESOURCES

($ millions)	Three months ended December 31, 2015	Three months ended December 31, 2014	Year ended December 31, 2015	For the period from May 27, 2014 to December 31, 2014
Net Cash From (Used In)				
Operating Activities	**$ 43.3**	$ 76.7	**$ 168.1**	$ 184.9
Investing Activities	**(696.0)**	(4.8)	**(741.7)**	(14.7)
Financing Activities	**639.7**	(65.7)	**701.3**	(107.2)
Increase (Decrease) in Cash and Cash Equivalents	**(13.0)**	6.2	**127.7**	63.0
Cash and Cash Equivalents, End of Period	**$ 190.8**	$ 63.1	**$ 190.8**	$ 63.1

OPERATING ACTIVITIES

Net cash from operating activities for Q4 2015 and YE 2015 were $43.3 million and $168.1 million, respectively, compared to $76.7 million and $184.9 million for the comparable periods in 2014. During Q4 2015, the Company recorded $0.9 million of non-cash expense associated with expired mineral leases (Q4 2014 – nil). In Q4 2015, 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 a decrease of $16.7 million. Q4 2015 cash flow from operating activities was reduced by $1.0 million of non-monetary non-performance fee revenue.

YE 2015 cash flow from operating activities was reduced by $16.4 million of non-monetary bonus consideration received on transactions and $1.0 million of non-monetary non-performance fee revenue. For YE 2015, the net change in other assets and liabilities was an increase of $3.6 million and the net change in non-cash working capital was a decrease of $9.7 million.

The Company had positive working capital of $210.3 million as at December 31, 2015. At December 31, 2015, accounts receivable and accrued revenue consist primarily of trade receivables and accrued revenue related to lease, royalty payments and the current portion of the royalty note receivable. In the oil and gas industry, accounts receivable from industry partners are typically settled in the following month; however, payments to royalty owners are often delayed longer, and as a result, actual payments may differ from estimates recorded. Accounts payable and accrued liabilities consist primarily of freehold mineral tax, share-based compensation and salary related accruals. At December 31, 2015, working capital included cash of $190.8 million.

INVESTING ACTIVITIES

For the three months ended December 31, 2015, cash used in investing activities was $696.0 million (Q4 2014 – $4.8 million) related to the closing of the Transaction and other royalty and E&E asset acquisitions as outlined in the “Acquisitions” section of this MD&A.

For the year ended December 31, 2015, cash used in investing activities was $741.7 million (YE 2014 – $14.7 million) related to the closing of the Transaction and other royalty and E&E asset acquisitions as outlined in the “Acquisitions” section of this MD&A.

FINANCING ACTIVITIES

For the three months and year ended December 31, 2015, cash from financing activities was $639.7 million (Q4 2014 – cash used $65.7 million) and $701.3 million (YE 2014 - cash used $107.2 million), respectively. The significant increase in cash from financing activities for both the Q4 2015 and YE 2015 periods is related to the two separate financing transactions that occurred during the year. On July 7, 2015, $189.5 million net proceeds were received from a bought deal prospectus offering of 6.3 million common shares. On December 2, 2015, the Company raised $678.8 million from a private placement of approximately 27.0 million common shares, the proceeds of which were used as consideration for the Transaction as detailed under the “Acquisitions” section of this MD&A. The proceeds of both of these transactions were offset by dividends paid to shareholders of $39.4 million for Q4 2015 (Q4 2014 - $41.2 million) and $167.2 million for YE 2015 (YE 2014 - $82.5 million).

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 three months and year ended December 31, 2015 were $0.1 million (Q4 2014 – $0.1 million) and $0.4 million (YE 2014 – $0.2 million). On June 18, 2015, the Credit Facility was extended for an additional one year period to May 29, 2018. As at December 31, 2015, the Credit Facility is undrawn.

Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were $58.6 million or $0.3250 per share for the fourth quarter of 2015. On December 17, 2015, the Board declared a dividend of $0.1083 per common share, paid on January 15, 2016, to shareholders of record as at December 31, 2015. On February 29, 2016, the Company announced that the Board has adjusted the monthly dividend from $1.30 per common share on an annualized basis, to $0.06 per common share per month or $0.72 per common share on an annualized basis, effective for the March 31, 2016 record date.

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

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

Outstanding Share Data

As at December 31, 2015, PrairieSky had 228.2 million common shares outstanding (December 31, 2014 - 149.3 million) and 0.8 million outstanding stock options (December 31, 2014 - 0.5 million). As at February 29, 2016, common shares outstanding had increased to 228.8 million as a result of additional DRIP and SDP shares issued.

Capital Structure

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

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, taxes, available Credit Facility, share issuance costs and other factors. The Company's operating results and capital structure are impacted by the level of development activity by third parties on the Royalty Properties and the resultant royalty revenues, 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 Company's forecast of 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)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Office lease commitments	**$ 1.7**	**$ 1.4**	**$ 1.4**	**$ 1.3**	**$ 1.4**	**$ 4.4**	**$ 11.6**

The Company has two royalty acquisition agreements in place with unrelated parties at December 31, 2015. The agreements expire on December 31, 2016 and August 1, 2017 and result in remaining commitments, subject to numerous conditions, of $1.1 million and $2.8 million, respectively.

RISK MANAGEMENT

FINANCIAL RISKS

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

Commodity Price Risk

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

Interest Rate Risk

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

Credit Risk

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

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

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

As at December 31, 2015, 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 revenues is the total carrying value. For the period presented, the Company does not have an allowance for doubtful accounts nor does it provide for any doubtful accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. The Company has access to funding alternatives through its Credit Facility. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At December 31, 2015, the Company had working capital of $210.3 million including cash of $190.8 million.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and its Credit Facility. The primary uses of funds are acquisitions, administrative expenses, freehold mineral taxes, cash taxes, and dividends.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $14.2 million and dividend payable of $24.7 million is less than one year.

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

FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS

For a detailed discussion of the risks, uncertainties and industry conditions associated with PrairieSky's business, refer to PrairieSky's Annual Information Form dated February 29, 2016 which is available at PrairieSky's SEDAR profile at www.sedar.com.

ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

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 crude oil and natural gas prices, future costs, discount rates, cash flow multiples, market value of land and other relevant assumptions.

Exploration & Evaluation Assets

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

Business 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 defined and described in Notes 1 and 5 in the annual Financial Statements, the Acquired Business was acquired by the Company from Encana Corporation ("Encana"). The Company was a wholly owned subsidiary and controlled by Encana prior to closing the Initial Public Offering ("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 the consideration and the aggregate carrying value of the assets and liabilities was recorded as a reserve from common control in Shareholders' Equity and collapsed into retained earnings in 2015.

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. Reserve estimates are also used to determine the fair value of royalty assets that are acquired through asset acquisitions and business combinations.

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

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

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

Fair Values in Business Combinations

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

Oil and Gas Revenue Accruals and Royalty Interests

PrairieSky follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of royalty revenues, production and related expenses for the period being reported, for which actual results have not yet been received. The Company has no operational control over the 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, RSU, PSU and a DSU Plan, as previously discussed in this MD&A. 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 15 to the audited annual Financial Statements.

For the RSU, PSU and DSU Plans, fair values are determined at grant and 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. Judgment is also required to estimate the number of RSUs and PSUs that will ultimately vest.

Goodwill

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

Goodwill is assessed for impairment at least annually. If the 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 ("FASB"). 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, 2018. 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.

Changes to the Company's ICFR since December 31, 2014 relate to the acquisition of Private Co. As permitted at December 31, 2014, the Company limited the scope to design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") and excluded 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 the 2014 filing. The acquisition of Private Co. closed on December 19, 2014. During the year ended December 31, 2015, this scope limitation was removed.

The Board, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee meets at least 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, disclosure controls and procedures ("DC&P") as defined in NI 52-109 to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. The CEO and CFO of PrairieSky evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that PrairieSky's DC&P were effective as at December 31, 2015.

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. Under the supervision of the CEO and CFO, PrairieSky conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2015 based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Framework. Based on this evaluation, the officers concluded that as of December 31, 2015, PrairieSky maintained effective ICFR.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

Quarterly variances in revenues, net income, and funds from operations are primarily due to fluctuations in commodity prices and production volumes. Crude oil prices are generally determined by global supply and demand factors. Natural gas prices are influenced by many variables including weather conditions, industrial demand, and North American natural gas inventories. Changes in the USD-CAD currency exchange rate impact the Company's oil revenue realization relative to the benchmark WTI, which is referenced in U.S. dollars, with the weaker Canadian dollar in 2015 positively impacting oil revenues.

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

- The WTI quarterly average of US$41.71 per bbl in Q4 2015 has decreased 43% from US$73.39 per bbl in Q4 2014.
- The AECO quarterly average of $2.65 per mcf in Q4 2015 has decreased 34% from $4.01 per mcf in Q4 2014.
- Average realized NGL price of $22.65 per bbl in Q4 2015 has decreased 38% from $36.70 per bbl in Q4 2014.
- Average total realized price of $23.57 per BOE in Q4 2015 has decreased 40% from $39.24 per BOE in Q4 2014.

Net earnings and comprehensive income in all four quarters of 2015 were impacted by higher depletion expense as a result of the acquisition of Private Co. in December 2014.

Dividends declared in Q4 2015 have increased as a result of the issuance of 71.4 million common shares during Q4 2015.

Production has increased in Q4 2015 from Q3 2015 as a result of the closing of the Transaction on December 16, 2015.

Working capital has increased in Q3 2015 as a result of the issuance of 6.3 million common shares for net proceeds of $189.5 million.

Revenues in Q2 2015 increased from Q1 2015 as a result of $24.8 million in bonus consideration received during the period.

Q2 2014 is the 35 day period from May 27, 2014 to June 30, 2014, and as such revenue, funds from operations and net income for the period are not representative of a full operating quarter.

($ millions, unless otherwise noted)	**Q2 2014[(4)]**	**Q3 2014**	**Q4 2014**	**Q1 2015**	**Q2 2015**	**Q3 2015**	**Q4 2015**
FINANCIAL							
Revenues	**$ 37.7**	**$ 91.4**	**$ 69.6**	**$ 54.4**	**$ 71.8**	**$ 44.0**	**$ 44.8**
Funds from Operations[(1)]	**31.2**	**68.7**	**59.0**	**37.7**	**43.6**	**36.5**	**60.0**
Per Share – basic and diluted[(2)]	**0.66**	**0.53**	**0.44**	**0.25**	**0.29**	**0.24**	**0.36**
Net Earnings and Comprehensive Income	**24.4**	**61.2**	**50.7**	**16.8**	**24.1**	**14.1**	**8.0**
Per Share – basic and diluted[(2)]	**0.52**	**0.47**	**0.38**	**0.11**	**0.16**	**0.09**	**0.05**
Dividends declared[(3)]	**13.8**	**41.3**	**43.2**	**48.5**	**48.6**	**50.8**	**58.6**
Per Share	**0.1058**	**0.3174**	**0.3174**	**0.3250**	**0.3250**	**0.3250**	**0.3250**
Working Capital	**57.5**	**75.2**	**71.4**	**56.9**	**22.6**	**203.4**	**210.3**
OPERATIONAL							
Production Volumes							
Natural Gas (MMcf/d)	**42.9**	**44.1**	**58.6**	**62.5**	**59.5**	**59.5**	**62.2**
Crude Oil (bbls/d)	**6,931**	**6,599**	**6,069**	**5,968**	**5,751**	**4,800**	**5,432**
NGL (bbls/d)	**1,582**	**1,493**	**1,444**	**1,666**	**1,537**	**1,309**	**1,852**
Total (BOE/d)	**15,664**	**15,448**	**17,280**	**18,051**	**17,205**	**16,026**	**17,651**

(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.
(3) A dividend of $0.10833 per common share was declared on December 17, 2015. The dividend was paid on January 15, 2016 to shareholders of record as at December 31, 2015.
(4) The term Q2 2014 refers to the 35 day period from May 27, 2014 to June 30, 2014.

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, and 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 products 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 Properties to assess the comparability of the underlying performance between years.

"Netback" represents the cash margin for products 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 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 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)	**For the three months ended December 31, 2015**	**$ per BOE**	**For the three months ended December 31, 2014**	**$ per BOE**
Cash From Operating Activities	**$ 43.3**	**$ 26.66**	$ 76.7	$ 48.25
Add back (deduct):				
Net Change in Non-cash Working Capital	**16.7**	**10.29**	(17.7)	(11.14)
Funds From Operations	**$ 60.0**	**$ 36.95**	$ 59.0	$ 37.11

($ millions)	**For the year ended December 31, 2015**	**$ per BOE**	**For the period from May 27, 2014 to December 31, 2014**	**$ per BOE**
Cash From Operating Activities	**$ 168.1**	**$ 26.74**	$ 184.9	$ 51.96
Add back (deduct):				
Net Change in Non-cash Working Capital	**9.7**	**1.54**	(26.0)	(7.31)
Funds From Operations	**$ 177.8**	**$ 28.28**	$ 158.9	$ 44.65

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 December 31, 2015**	Three months ended December 31, 2014	**Year ended December 31, 2015**	For the period from May 27, 2014 to December 31, 2014[3]
Funds from Operations	**$ 60.0**	$ 59.0	**$ 177.8**	$ 158.9
Number of common shares:				
Common shares outstanding – basic	**168.2**	132.5	**155.7**	77.9
Effect of dilutive securities	**0.2**	0.1	**0.3**	0.1
Common shares outstanding – diluted	**168.4**	132.6	**156.0**	78.0
Funds from Operations per Share				
Basic[1]	**$ 0.36**	$ 0.44	**$ 1.14**	$ 2.04
Diluted[2]	**$ 0.36**	$ 0.44	**$ 1.14**	$ 2.04

(1) The Funds from Operations per common share is calculated using the weighted average number of PrairieSky common shares outstanding for the year ended December 31, 2015.

(2) The Funds from Operations per common share is calculated using the weighted average number of PrairieSky common shares outstanding for the year ended December 31, 2015, giving effect to stock options, and other share based plans.

(3) Basic and diluted weighted average common shares are based on the full calendar year ended December 31, 2014.

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at December 31, 2015, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

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

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to the acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with Encana and Canadian Natural, and limited ability to recover indemnification from Encana and Canadian Natural under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in 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 acquisitions and third party development; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the operators of the properties in which PrairieSky has a royalty interest in, to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, if any, the ability of PrairieSky or a third party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the PrairieSky's properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, general and administrative expenses and income tax expenses; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against or involving PrairieSky; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in 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 annual audited 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 2015 Audited Annual Financial Statements and notes thereto, and PrairieSky’s Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky’s website at www.prairiesky.com.