PRAIRIESKY
ROYALTY LTD

TSX: PSK

MANAGEMENT'S DISCUSSION AND ANALYSIS / FOR THE YEAR ENDED DECEMBER 31, 2017

HIGH MARGINS ZERO CAPITAL

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") for PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") should be read in conjunction with the audited annual consolidated financial statements as at and for the year ended December 31, 2017 ("financial statements"). This MD&A has been prepared as of February 26, 2018.

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

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

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

Readers should also read the Advisory section located at the end of this MD&A, which provides information on Forward-Looking Statements, natural gas, oil and natural gas liquids ("NGL") conversions, currency and references to PrairieSky.

FINANCIAL AND OPERATIONAL RESULTS

(millions, except per share or as otherwise noted)	Three months ended December 31 2017	Three months ended December 31 2016	Year ended December 31 2017	Year ended December 31 2016
FINANCIAL				
Revenues	**$ 91.5**	$ 67.9	**$ 345.7**	$ 224.2
Funds from Operations	**81.1**	61.8	**290.2**	200.2
Per Share – basic and diluted[(1)(4)]	**0.34**	0.27	**1.23**	0.88
Net Earnings and Comprehensive Income	**39.9**	16.1	**120.6**	20.0
Per Share - basic and diluted[(1)]	**0.17**	0.07	**0.51**	0.09
Dividends declared[(2)]	**44.2**	41.1	**176.2**	186.7
Per Share	**0.1875**	0.1800	**0.7450**	0.8167
Acquisitions, including non-cash consideration	**80.8**	112.2	**380.5**	144.8
Working Capital at period end	**45.7**	44.2	**45.7**	44.2
Shares outstanding				
Shares outstanding at period end	**236.0**	228.0	**236.0**	228.0
Weighted average - basic	**236.2**	228.2	**236.5**	228.6
Weighted average - diluted	**236.5**	228.5	**236.7**	228.8
OPERATIONAL				
Royalty Production Volumes				
Natural Gas (MMcf/d)	**75.2**	78.2	**78.1**	74.7
Crude Oil (bbls/d)	**9,419**	8,583	**9,565**	8,455
NGL (bbls/d)	**2,454**	2,362	**2,677**	2,403
Royalty Production (BOE/d)[(3)]	**24,406**	23,978	**25,259**	23,308
Realized Pricing				
Natural Gas ($/Mcf)	**1.56**	2.27	**1.81**	1.65
Crude Oil ($/bbl)	**58.35**	52.09	**52.99**	44.22
NGL ($/bbl)	**34.80**	24.14	**29.80**	22.01
Total ($/BOE)[(3)]	**30.82**	28.47	**28.84**	23.61
Operating Netback per BOE[(4)]	**$ 27.22**	$ 23.16	**$ 24.92**	$ 19.17
Funds from Operations per BOE	**$ 36.12**	$ 28.01	**$ 31.48**	$ 23.47
Natural Gas Price Benchmarks				
AECO ($/Mcf)	**1.96**	2.82	**2.43**	2.09
Foreign Exchange Rate (US$/CAD$)	**0.7865**	0.7496	**0.7703**	0.7548
Oil Price Benchmarks				
West Texas Intermediate (WTI) (US$/bbl)	**54.83**	48.64	**51.26**	42.99
Edmonton Light Sweet ($/bbl)	**66.70**	59.95	**63.32**	52.82

(1) Net Earnings and Comprehensive Income and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.
(2) A dividend of $0.0625 per common share was declared on December 14, 2017. The dividend was paid on January 15, 2018 to shareholders of record as at December 29, 2017.
(3) See "Conversions of Natural Gas to BOE".
(4) Funds from Operations per Share and Operating Netback per BOE are defined under the Non-GAAP Measures section in this MD&A.

RESULTS OVERVIEW

HIGHLIGHTS

During the three-month period ended December 31, 2017 ("Q4 2017"), PrairieSky reported:

- Revenues totaled $91.5 million, consisting of $69.2 million of royalty revenue, $3.0 million of lease rental income, $19.0 million of bonus consideration and $0.3 million of other income.
- Funds from operations totaled $81.1 million ($0.34 per share basic and diluted).
- Royalty production averaged 24,406 BOE per day consisting of average crude oil production volumes of 9,419 bbls per day, average NGL production volumes of 2,454 bbls per day and average natural gas production volumes of 75.2 MMcf per day.
- Completed acquisitions of gross overriding royalties on producing properties and emerging plays in the period for cash proceeds of $78.2 million.
- Cash and cash equivalents of $45.1 million and positive working capital of $45.7 million at December 31, 2017.
- Dividends declared of $44.2 million ($0.1875 per share).
- Purchased for cancellation 336,700 common shares at a weighted average price of $32.66 per common share for total consideration of $11.0 million under the normal course issuer bid ("NCIB").

During the year ended December 31, 2017 ("YE 2017"), PrairieSky reported:

- Revenues totaled $345.7 million, consisting of $265.9 million of royalty revenue, $10.7 million of lease rental income, $67.0 million of bonus consideration and $2.1 million of other income.
- Funds from operations totaled $290.2 million ($1.23 per share basic and diluted).
- Royalty production averaged 25,259 BOE per day consisting of average crude oil production volumes of 9,565 bbls per day, average NGL production volumes of 2,677 bbls per day and average natural gas production volumes of 78.1 MMcf per day.
- Purchased for cancellation 1,402,300 common shares at a weighted average price of $30.09 per common share for total consideration of $42.2 million under the NCIB.
- Completion of the acquisition of a 4% gross overriding royalty on current and future phases of the Lindbergh SAGD thermal oil project, as well as seismic over certain lands in British Columbia and Alberta, for total cash consideration of $250 million (the "Lindbergh Acquisition"), before customary closing adjustments.
- Completion of a bought deal prospectus offering of 9.2 million common shares, including 1.2 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters at a price of $31.40 per common share for aggregate gross proceeds of $288.9 million and net proceeds, after fees and expenses, of $276.9 million.

BUSINESS OVERVIEW

PRAIRIESKY ROYALTY

PrairieSky's asset base includes a geologically and geographically diverse portfolio of Fee Lands (as defined herein) that encompasses approximately 7.8 million acres with petroleum and/or natural gas rights, an additional 1.1 million acres in coal only titles, and approximately 7.5 million acres of GORR Lands (as defined herein) and other acreage (collectively, the "Royalty Properties").

The Royalty Properties are comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas, NGL and certain other minerals located predominantly in central and southern Alberta and western Saskatchewan (the "Fee Lands"); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands (“Lessor Interests”); and (iii) overriding royalty interests (“GORR Interests”) on lands (“GORR Lands”) across Western Canada.

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

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

PrairieSky receives royalty revenue from over 38,000 wells and receives payments from approximately 340 different industry payors. The Company receives approximately 75% of its monthly revenue from 28 payors. Royalties are calculated on a fixed percentage or sliding scale formula. The average royalty rate for YE 2017 was approximately 6.1%. Some royalty agreements allow for the deduction of certain costs.

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

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

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

Management’s discussion and analysis for this reporting period focuses on the three months and year ended December 31, 2017.

PRAIRIESKY’S 2018 OUTLOOK

Management does not provide guidance. As such, this discussion relates only to general economic conditions experienced by the Company as of the date of this MD&A. The economic environment in which PrairieSky operates remains challenged with continued low natural gas prices, widening Western Canadian Select to WTI pricing differentials and constrained takeaway capacity for both crude oil and natural gas. There continues to be limited access to capital for many industry participants, and changes to legislative and regulatory frameworks in the jurisdictions in which the Company carries on business, including but not limited to, taxes, tariffs, or limits related to carbon emissions, and less competitive corporate tax rates than other jurisdictions. Management continues to deploy its risk mitigating strategies including proactive monitoring of economic conditions, a constant and proactive compliance and collections program, paying close attention to controllable costs and a disciplined approach to acquisitions. PrairieSky maintains a strong balance sheet and continues to employ a conservative capital structure. As at December 31, 2017, PrairieSky had positive working capital of $45.7 million with $45.1 million in cash.

On February 26, 2018, the Company announced that the Board has increased the monthly dividend from $0.75 per common share on an annualized basis to $0.065 per common share per month or $0.78 per common share on an annualized basis, effective for the March 29, 2018 record date. In addition, $50.0 million has been allocated to extend the NCIB from May 4, 2018 to May 3, 2019.

Management continues to monitor current commodity prices, currency exchange rates, industry activity levels and third-party guidance for anticipated capital expenditures during 2018 and beyond. Given PrairieSky has no operational control over capital expenditures on its lands, it is difficult to predict activity levels and the timing thereof with a high degree of certainty.

PrairieSky's diversity in crude oil and natural gas plays and payors, along with an active royalty compliance program, assists in reducing collection and credit risk. The Company takes certain royalty volumes in kind which, in conjunction with the above processes, further assists in managing collection and credit risk.

PRAIRIESKY'S STRATEGY

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

ROYALTY PRODUCTION

ROYALTY PRODUCTION VOLUMES

	Three months ended December 31		**Year ended December 31**	
(Average daily)	**2017**	**2016**	**2017**	**2016**
Natural Gas (MMcf/d)	**75.2**	78.2	**78.1**	74.7
Crude Oil (bbls/d)	**9,419**	8,583	**9,565**	8,455
NGL (bbls/d)	**2,454**	2,362	**2,677**	2,403
Total Royalty Production (BOE/d)	**24,406**	23,978	**25,259**	23,308

PrairieSky's average daily royalty production volumes for Q4 2017 were 39% oil, 10% NGL and 51% natural gas as compared to Q4 2016 when the production volume split was 36% oil, 10% NGL and 54% natural gas. The average daily royalty production split during YE 2017 was 38% oil, 10% NGL and 52% natural gas as compared to YE 2016 when the average daily royalty production volume split was 37% oil, 10% NGL and 53% natural gas. There is a natural delay between the timing of production and when PrairieSky receives its royalty interest production and revenue from operators. Due to this delay, PrairieSky's royalty production volumes and revenue include both positive and negative adjustments related to prior periods. In addition, collections related to compliance recoveries result in adjustments to royalty production volumes and royalty revenue related to prior periods.

For the three months ended December 31, 2017

Natural gas production volumes for Q4 2017 of 75.2 MMcf per day were 4% lower than the 78.2 MMcf per day reported in Q4 2016. The decrease is attributed to natural declines exceeding production additions from new drilling on the Royalty Properties and minor acquisitions throughout the year.

Crude oil production volumes for Q4 2017 of 9,419 bbls per day were 10% higher than the 8,583 bbls per day reported in Q4 2016 as royalty production volumes from new drilling on the Royalty Properties and acquisitions outweighed natural declines. Acquisitions included a full quarter of production from the 3.95% GORR Interest on a heavy and thermal oil project at Onion Lake, Saskatchewan (the "Onion Lake Acquisition") which was acquired in Q4 2016 and acquired production from the Lindbergh Acquisition in Q1 2017.

NGL production volumes for Q4 2017 of 2,454 bbls per day have increased 4% from 2,362 bbls per day reported in Q4 2016. The increase in NGL volumes quarter over quarter is due to incremental volumes from new wells on stream more than offsetting natural declines, as well as higher NGL yields.

For the year ended December 31, 2017

Natural gas production volumes for YE 2017 of 78.1 MMcf per day were 5% higher than the 74.7 MMcf per day reported in YE 2016. Royalty production volumes from new drilling and minor acquisitions partially offset natural declines. In addition, natural gas production volumes were impacted by positive volume adjustments from prior periods.

Crude oil production volumes for YE 2017 of 9,565 bbls per day were 13% higher than the 8,455 bbls per day reported in YE 2016 due to the impact of acquired royalty production volumes as described above and royalty production volumes from incremental drilling more than offsetting natural declines. In addition, there was a recovery in volumes from sliding scale royalties.

NGL production volumes for YE 2017 of 2,677 bbls per day have increased 11% from 2,403 bbls per day reported in YE 2016. The increase in NGL volumes is due to incremental royalty production volumes from new wells on stream and higher NGL yields outweighing the impact of natural declines. NGL production volumes have also been impacted by positive volume adjustments from prior periods.

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

PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain.

FINANCIAL RESULTS

OPERATING RESULTS

	Three months ended December 31, 2017		**Three months ended December 31, 2016**	
	($ millions)	**($/BOE) (2)**	**($ millions)**	**($/BOE)(2)**
Royalty Revenue	**$ 69.2**	**$ 30.82**	$ 62.8	$ 28.47
Administrative Expense	**(6.5)**	**(2.89)**	(9.3)	(4.22)
Production and Mineral Taxes	**(1.6)**	**(0.71)**	(2.4)	(1.09)
Operating Netback(1)	**$ 61.1**	**$ 27.22**	$ 51.1	$ 23.16

	Year ended December 31, 2017 ($ millions)	Year ended December 31, 2017 ($/BOE)[2]	Year ended December 31, 2016 ($ millions)	Year ended December 31, 2016 ($/BOE)[2]
Royalty revenue	**$ 265.9**	**$ 28.84**	$ 201.4	$ 23.61
Administrative Expense	**(30.1)**	**(3.26)**	(32.2)	(3.77)
Production and Mineral Taxes	**(6.1)**	**(0.66)**	(5.7)	(0.67)
Operating Netback[1]	**$ 229.7**	**$ 24.92**	$ 163.5	$ 19.17

	Three months ended December 31		Year ended December 31	
	2017	**2016**	**2017**	**2016**
Royalty Production (BOE/d)[2]	**24,406**	23,978	**25,259**	23,308

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

REVENUES

Royalty Revenue by Product	Three months ended December 31		Year ended December 31	
(millions)	**2017**	**2016**	**2017**	**2016**
Natural Gas	**$ 10.8**	$ 16.4	**$ 51.8**	$ 45.2
Crude Oil	**50.6**	41.1	**185.0**	136.8
NGL	**7.8**	5.3	**29.1**	19.4
	69.2	62.8	**265.9**	201.4
Other Revenue (millions)				
Lease Rental Income	**$ 3.0**	$ 2.1	**$ 10.7**	$ 8.5
Bonus Consideration	**19.0**	2.4	**67.0**	12.4
Other Income	**0.3**	0.6	**2.1**	1.9
	22.3	5.1	**79.8**	22.8
Total Revenue	**$ 91.5**	$ 67.9	**$ 345.7**	$ 224.2

Revenues by Classification	Three months ended December 31		Year ended December 31	
(millions)	**2017**	**2016**	**2017**	**2016**
Fee Lands	**$ 52.2**	$ 47.9	**$ 200.3**	$ 158.9
GORR Interests	**17.0**	14.9	**65.6**	42.5
Royalty Revenue	**69.2**	62.8	**265.9**	201.4
Other Revenue	**22.3**	5.1	**79.8**	22.8
Total Revenue	**$ 91.5**	$ 67.9	**$ 345.7**	$ 224.2

The Company’s corporate average royalty rate for Q4 2017 and YE 2017 was approximately 6.2% and 6.1%, respectively, compared to 6.2% and 6.0% for the comparable periods in 2016. During the three months and year ended December 31, 2017, royalty revenue was $69.2 million and $265.9 million, respectively, compared to $62.8 million and $201.4 million for the same periods in 2016. Q4 2017 royalty revenue increased by 10% compared to Q4 2016 as a result of higher total production volumes combined with a higher corporate average realized price during Q4 2017. Royalty revenue for YE 2017 increased 32% due to an 8% increase in total royalty production volumes and a higher corporate average realized price.

During Q4 2017, revenue from the Lessor Interests was $52.2 million or 75% of total royalty revenue. Revenue from GORR Interests was $17.0 million or 25% of total royalty revenue for the same time period. In the comparative period, $47.9 million or 76% and $14.9 million or 24%, respectively, of royalty revenue was generated from Lessor Interests and GORR Interests. The increase in revenue generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of revenues from the Lindbergh and Onion Lake Acquisitions. In addition to royalty revenue from Lessor Interests, all lease rental income and bonus consideration is generated from Fee Lands.

During YE 2017, revenue from the Lessor Interests was $200.3 million or 75% of total royalty revenue. Revenue from GORR Interests was $65.6 million or 25% of total royalty revenue for the same period. In the comparative period, $158.9 million or 79% and $42.5 million or 21%, respectively, of royalty revenue was generated from Lessor Interests and GORR Interests. The increase in revenues generated from GORR Interests as a percentage of total royalty revenue is reflective of the impact of the Lindbergh and Onion Lake Acquisitions. Bonus consideration of $67.0 million (YE 2016 - $12.4 million) and lease rental income of $10.7 million (YE 2016 - $8.5 million) were also generated from Fee Lands.

During Q4 2017, the Company averaged realized crude oil pricing of $58.35 per bbl, NGL pricing of $34.80 per bbl and natural gas pricing of $1.56 per Mcf. Liquids pricing increased from Q4 2016 when the Company averaged realized crude oil pricing of $52.09 per bbl and NGL pricing of $24.14 per bbl due to increased benchmark pricing offset by a stronger Canadian dollar. Realized natural gas pricing decreased to $1.56 per Mcf from $2.27 per Mcf in Q4 2016 due to decreases in benchmark pricing. YE 2017, the Company averaged realized crude oil pricing of $52.99 per bbl, NGL pricing of $29.80 per bbl and natural gas pricing of $1.81 per Mcf. Prices for all products increased with 2017 benchmark pricing from YE 2016 when the Company averaged realized crude oil pricing of $44.22 per bbl, NGL pricing of $22.01 per bbl and natural gas pricing of $1.65 per Mcf.

Royalty compliance recoveries are the cash payments received as a result of the extensive process of identifying, analyzing, resolving and collecting corrected payments from royalty payors. Cash received from compliance recoveries can cover a number of periods. PrairieSky's compliance department continually reviews leasing agreements and royalty calculations. Compliance adjustments are not recorded in the financial statements until collection is certain. For the three months and year ended December 31, 2017, the Company collected $5.1 million and $10.6 million, respectively, in compliance recoveries. Compliance recoveries are included in royalty revenue for the period.

Other revenue consisted primarily of lease rental income from leases that are currently issued in respect of certain Fee Lands and lease bonus consideration. Bonus consideration revenue for Q4 2017 and YE 2017 was $19.0 million (Q4 2016 - $2.4 million) and $67.0 million (YE 2016 - $12.4 million), respectively. Bonus consideration was earned upon the issuance of new leases as well as an amendment to an existing leasing arrangement in the second quarter of 2017. Both the amount and timing of bonus consideration revenue can vary significantly from quarter to quarter as it relates to the unique circumstances of each transaction.

ADMINISTRATIVE EXPENSES

	Three months ended December 31		Year ended December 31	
(millions)	**2017**	2016	**2017**	2016
Salaries and Benefits	**$ 3.9**	$ 3.3	**$ 14.3**	$ 14.2
Share-Based Compensation	**1.7**	4.4	**9.8**	10.2
Office Expense	**-**	0.7	**2.5**	4.5
Public Company Expense	**0.2**	0.2	**1.4**	1.0
Information Technology and Other	**0.7**	0.5	**2.1**	2.1
Transaction Costs	**-**	0.2	**-**	0.2
Total Administrative Expenses	**$ 6.5**	$ 9.3	**$ 30.1**	$ 32.2

	Three months ended December 31, 2017		Three months ended December 31, 2016	
	($ millions)	($/BOE)[1]	($ millions)	($/BOE)[1]
Administrative – cash	**$ 5.8**	**$ 2.58**	$ 4.9	$ 2.22
Administrative – non-cash	**0.7**	**0.31**	4.4	2.00
Total Administrative Expenses	**$ 6.5**	**$ 2.89**	$ 9.3	$ 4.22

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

	Year ended December 31, 2017		Year ended December 31, 2016	
	($ millions)	($/BOE)(1)	($ millions)	($/BOE)(1)
Administrative – cash	**$ 27.7**	**$ 3.00**	$ 23.7	$ 2.78
Administrative – non-cash	**2.4**	**0.26**	8.5	0.99
Total Administrative Expenses	**$ 30.1**	**$ 3.26**	$ 32.2	$ 3.77

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

PrairieSky is committed to cost control in its business. Administrative expenses for Q4 2017 and YE 2017 were $2.89 per BOE (Q4 2016 - $4.22 per BOE) and $3.26 per BOE (YE 2016 - $3.77 per BOE), respectively. Salaries and share-based compensation costs for YE 2016 included $1.3 million related to severance costs. Administrative expenses include both cash and non-cash charges which relate to share-based compensation plans. Non-cash administrative expenses related to share-based compensation are impacted by the closing share price at period end and as such, are subject to variability. In Q4 2017, the Company received a $1.0 million GORR asset as reimbursement for incurred administrative expenses.

Of the total share-based compensation expense for Q4 2017, $0.3 million (Q4 2016 - $0.3 million) related to the stock option plan and there was $1.4 million of expense (Q4 2016 - $3.7 million) related to the restricted share unit (“RSU”) and performance share unit (“PSU”) plans. The Company recorded nil expense (Q4 2016 - $0.4 million) related to the Company’s Deferred Share Unit (“DSU”) plan in Q4 2017.

Of the total share-based compensation expense for YE 2017, $1.8 million (YE 2016 - $1.2 million) related to the stock option plan and there was $7.2 million of expense (YE 2016 - $7.6 million) related to the RSU and PSU plans. The Company recorded $0.8 million (YE 2016 - $1.4 million) related to the Company’s DSU plan.

The Company paid out $6.4 million related to share-based compensation during YE 2017 (YE 2016 - $1.7 million). When cash share-based payments are paid, there is an increase in cash administrative expenses in the period, with a corresponding decrease in non-cash administrative expenses. Cash payments increased in 2017 due to the three-year cliff vesting of awards granted at the time of the Company’s Initial Public Offering in May 2014. Outstanding share-based compensation awards vest during the first quarter of the year and, as a result, PrairieSky expects cash administrative expenses to increase during the first quarter of 2018, compared to Q4 2017.

Total outstanding units and options from all employee incentive plans is less than 1% of total common shares outstanding at December 31, 2017.

PRODUCTION AND MINERAL TAXES

	Three months ended December 31		Year ended December 31	
(millions, except per BOE amounts)	2017	2016	2017	2016
Production and mineral taxes	**$ 1.6**	$ 2.4	**$ 6.1**	$ 5.7
$/BOE	**$ 0.71**	$ 1.09	**$ 0.66**	$ 0.67

Production and mineral taxes are levied on an annual basis on the value of crude oil and natural gas production or amount of acreage from non-Crown lands. For Q4 2017, production and mineral taxes, which includes Alberta freehold mineral tax and Saskatchewan acreage tax, averaged 2.3% of royalty revenues compared to approximately 3.8% in the comparable 2016 period. Saskatchewan acreage tax does not vary with pricing while Alberta freehold mineral taxes are impacted by both production and pricing. Production and mineral taxes are based on an annual estimate which can result in variances from quarter to quarter.

YE 2017, production and mineral taxes averaged 2.3% of royalty revenues, which is relatively flat compared to YE 2016 when it was 2.8%.

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

	Three months ended December 31		Year ended December 31	
(millions, except per BOE amounts)	**2017**	**2016**	**2017**	**2016**
Depletion, Depreciation and Amortization	**$ 37.4**	$ 39.9	**$ 166.7**	$ 162.5
$/BOE	**$ 16.66**	$ 18.09	**$ 18.08**	$ 19.05

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 lower in Q4 2017 and YE 2017 than the prior year comparative periods due to a lower depletable base and increased reserves. DD&A per BOE will fluctuate depending on the royalty assets acquired, the amount of reserves added, and production volumes in the period.

EXPLORATION AND EVALUATION EXPENSE ("E&E")

	Three months ended December 31		Year ended December 31	
(millions, except per BOE amounts)	**2017**	**2016**	**2017**	**2016**
Exploration and Evaluation Expense	**$ 0.2**	$ 0.8	**$ 4.9**	$ 6.2
$/BOE	**$ 0.09**	$ 0.36	**$ 0.53**	$ 0.73

During Q4 2017 and YE 2017, $0.2 million (Q4 2016 - $0.8 million) and $4.9 million (YE 2016 - $6.2 million), respectively, of costs associated with expired Crown mineral leases and gross overriding royalties were recognized as an expense. The expense will vary period to period as a result of the timing of lease expiries, if any.

FINANCE

	Three months ended December 31		Year ended December 31	
(millions)	**2017**	**2016**	**2017**	**2016**
Finance Income	**$ (0.4)**	$ (0.3)	**$ (1.3)**	$ (2.1)
Finance Expense	**-**	-	**0.1**	0.2
Net Finance Items	**(0.4)**	(0.3)	**(1.2)**	(1.9)

Finance income includes interest on funds on deposit, short term investments and the royalty note receivable. Finance income increased 33% from Q4 2016 to Q4 2017 as a result of the increase in the cash balance in January 2017 due to the financing discussed under the "Liquidity and Capital Resources" section of this document. Year over year, finance income decreased as a result of acquisitions completed for cash consideration during 2016 and 2017 which lowered the cash balance on deposit. Finance expense includes credit facility set-up and stand-by fees. Finance expense in Q4 2017 was consistent with Q4 2016. YE 2017 finance expense decreased from YE 2016 due to the reduced standby fees as a result of the voluntary reduction to the Credit Facility completed in Q2 2016.

INCOME TAX

(millions)	Three months ended December 31 2017	2016	Year ended December 31 2017	2016
Current Tax Expense	**$ 4.4**	$ -	**$ 11.6**	$ -
Deferred Tax Expense (Recovery)	**1.9**	(0.3)	**6.9**	(0.5)
Income Tax Expense (Recovery)	**6.3**	(0.3)	**18.5**	(0.5)

For the year ended December 31, 2017, the Company recorded an $11.6 million (YE 2016 - nil) current tax expense and a deferred tax expense of $6.9 million (YE 2016 - recovery of $0.5 million). PrairieSky's effective tax rate was approximately 13% for YE 2017 (YE 2016 - 3%). The Company's effective tax rate differs from the Canadian statutory tax rate of 27% primarily as a result of the reversal of the initial difference between the carrying value of net assets transferred and the tax pools acquired on May 27, 2014, for which no deferred tax asset was recognized, partially offset by non-deductible employee-related expenses. The Company has a current tax payable at December 31, 2017 of $11.3 million (YE 2016 - nil).

The approximate tax pools balances available at year end are:

(millions)	Year ended December 31, 2017	Year ended December 31, 2016
Canadian oil and gas property expense ("COGPE")	**$ 1,556.6**	$ 1,447.6
Canadian development expense ("CDE")	**0.2**	0.2
Canadian exploration expense ("CEE")	**-**	-
Undepreciated capital cost ("UCC")	**0.6**	0.8
Non-capital loss carryforwards	**-**	1.8
Share issue costs	**13.4**	5.6
	$ 1,570.8	$ 1,456.0

NET EARNINGS

Net earnings for Q4 2017 and YE 2017 were $39.9 million ($0.17 per share, basic and diluted) and $120.6 million ($0.51 per share, basic and diluted), respectively, compared to $16.1 million for Q4 2016 ($0.07 per share, basic and diluted) and $20.0 million for YE 2016 ($0.09 per share, basic and diluted). Net earnings increased by $23.8 million during Q4 2017 compared to Q4 2016 as a result of increased royalty revenue, higher bonus consideration and lower administrative expenses offsetting higher income tax expense for the quarter. Net earnings for YE 2017 increased by $100.6 million compared to the same period in 2016 due to significantly higher royalty revenues and bonus consideration offsetting higher depletion and income tax expenses. YE 2017 net earnings included $67.0 million in bonus consideration compared to $12.4 million in YE 2016 which illustrates the variability of this revenue stream.

ACQUISITIONS

During Q4 2017, the Company completed acquisitions totaling $80.8 million (Q4 2016 - $112.2 million) comprised of royalty assets of $20.8 million (Q4 2016 - $43.7 million) and E&E assets, consisting of royalty interests, undeveloped land and seismic assets, of $60.0 million (Q4 2016 - $68.5 million). The majority of Q4 2017 acquisitions were funded with cash on hand. The Company recorded a $0.6 million GORR Interest, after cash closing adjustments of $0.4 million, as reimbursement for administrative costs incurred as part of a dispute resolution process which was settled on a non-cash basis during the quarter.

YE 2017, the Company completed acquisitions with an aggregate cost of $380.5 million (YE 2016 - $144.8 million) comprised of royalty assets of $59.3 million (YE 2016 - $65.8 million) and E&E assets of $321.2 million (YE 2016 - $79.0 million). The YE 2017 acquisitions included the Lindbergh Acquisition for $250 million, before customary closing adjustments, whereby the Company acquired a 4% gross overriding royalty on current and future phases of the Lindbergh SAGD thermal oil project, as well as seismic over certain lands in British Columbia and Alberta. A $15.0 million deposit paid in December 2016 was applied to the purchase price. In addition, the Company acquired Fee Lands, GORR Interests, undeveloped land

and seismic for cash consideration of $111.2 million, $15.2 million in GORR Interests and seismic in lieu of bonus consideration, $0.6 million in GORR Interests in lieu of administrative costs and a non-producing GORR Interest in exchange for the issuance of 53,616 common shares valued at $1.6 million. Included in the above E&E acquisition amount was approximately $55.0 million spent during 2017 on emerging resource plays that currently do not generate cash flows.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended December 31		Year ended December 31	
(millions)	**2017**	**2016**	**2017**	**2016**
Net Cash From (Used In)				
Operating Activities	**$ 77.2**	$ 58.2	**$ 298.6**	$ 204.6
Investing Activities	**(78.2)**	(132.6)	**(346.3)**	(153.8)
Financing Activities	**(55.9)**	(51.0)	**58.8**	(207.6)
Increase (Decrease) in Cash and Cash Equivalents	**(56.9)**	(125.4)	**11.1**	(156.8)
Cash and Cash Equivalents, Beginning of Period	**$ 102.0**	$ 159.4	**$ 34.0**	$ 190.8
Cash and Cash Equivalents, End of Year	**$ 45.1**	$ 34.0	**$ 45.1**	$ 34.0

OPERATING ACTIVITIES

Net cash from operating activities for Q4 2017 was $77.2 million compared to $58.2 million for the comparable period in 2016 as a result of higher royalty revenues from increased royalty production volumes and a higher corporate realized price as well as higher bonus consideration. The net change in non-cash working capital for Q4 2017 was a decrease of $3.9 million (Q4 2016 - decrease of $3.6 million).

Net cash from operating activities for YE 2017 was $298.6 million compared to $204.6 million in YE 2016 as a result of higher royalty revenues from increased royalty production volumes and improved commodity prices as well as higher bonus consideration. YE 2017 cash from operating activities was reduced by $15.2 million of non-monetary bonus consideration (YE 2016 - non-cash other revenue of $0.2 million) and $1.0 million in non-cash administrative expense recovery. The net change in non-cash working capital for YE 2017 was an increase of $8.4 million (YE 2016 - increase of $4.4 million).

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, on an ongoing basis, to fund distributions of cash flow to shareholders as dividends, to repurchase common shares under the Company's NCIB, as well as fund complementary acquisitions. Such a measure provides a useful indicator of the Company's operations, on an ongoing basis, by eliminating certain non-cash charges. Funds from operations in Q4 2017 and YE 2017 were $81.1 million and $290.2 million, respectively, an increase of 31% and 45% from $61.8 million in Q4 2016 and $200.2 million in YE 2016 due to higher royalty revenues and increased bonus consideration, partially offset by cash income taxes.

The Company had positive working capital of $45.7 million as at December 31, 2017. At December 31, 2017, accounts receivable and accrued revenue consisted primarily of trade receivables and accrued revenue related to lease and 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 consisted primarily of production and mineral taxes payable and share-based compensation and salary related accruals. At December 31, 2017, working capital included cash of $45.1 million.

INVESTING ACTIVITIES

For Q4 2017 and YE 2017, cash used in investing activities was $78.2 million (Q4 2016 - $132.6 million) and $346.3 million (YE 2016 - $153.8 million) respectively, related to royalty and E&E asset acquisitions as outlined in the “Acquisitions” section of this MD&A.

FINANCING ACTIVITIES

For Q4 2017, cash used in financing activities was $55.9 million (Q4 2016 - $51.0 million). The dividends paid in Q4 2017 of $44.3 million were higher than in the comparable 2016 period due to the additional shares issued in 2017, in combination with the increased dividend announced in February 2017. In addition, the Company repurchased $11.0 million in common shares under the NCIB in Q4 2017 (Q4 2016 - $9.9 million) as described below.

For YE 2017, cash from financing activities was $58.8 million (YE 2016 - cash used $207.6 million). YE 2017, the Company paid $175.2 million (YE 2017 - $0.7425 per common share) in dividends as compared to $181.5 million in YE 2016 (YE 2016 - $0.86499 per common share). YE 2017, $42.2 million in common shares have been repurchased (YE 2016 - $26.0 million). The Company completed a financing on January 6, 2017 whereby the Company issued 9.2 million common shares at a price of $31.40 per common share, for aggregate gross proceeds of approximately $288.9 million and net proceeds, after fees and expenses, of approximately $276.9 million. Proceeds of this financing were used as consideration for the $250 million Lindbergh Acquisition as detailed under the “Acquisitions” section of this MD&A.

The 33% increase in cash at December 31, 2017 compared to December 31, 2016 is due in part to completion of the January 6, 2017 financing as described above. In addition, PrairieSky generated funds from operations in excess of dividends and NCIB purchases during 2017. Cash on hand has declined by 56% from September 30, 2017, due to acquisitions completed for cash on hand during Q4 2017.

Credit Facility

The Company has a $25 million extendible operating Credit facility (the “Credit Facility”) which is unsecured, does not have a borrowing base restriction, and has a two-year term, extendible annually for up to three years, subject to certain requirements. In May 2017, the Credit Facility was extended for an additional two-year term extending the maturity date from May 29, 2018 to May 29, 2020. As at December 31, 2017, the Credit Facility was undrawn.

Dividends and Dividend Policy

PrairieSky currently pays a monthly dividend to shareholders at the discretion of the Board. Dividends declared were $44.2 million or $0.1875 per share for Q4 2017 and $176.2 million or $0.7450 per share for YE 2017. On February 27, 2017, the Company announced that the Board had adjusted the monthly dividend from $0.06 per common share per month or $0.72 per common share on an annualized basis, to $0.0625 per common share per month or $0.75 per common share on an annualized basis, effective for the March 31, 2017 record date. On December 14, 2017, the Board declared a dividend of $0.0625 per common share to shareholders of record on December 29, 2017. The dividend was paid on January 15, 2018. On February 26, 2018, the Company announced that the Board had increased the monthly dividend to $0.065 per common share per month or $0.78 per common share on an annualized basis, effective for the March 29, 2018 record date.

The Board of Directors reviews and determines the dividend rate annually after considering expected commodity prices, foreign exchange rates, economic conditions, production volumes, income taxes, and PrairieSky’s capacity to fund operating 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 withstanding periods of commodity price volatility.

Outstanding Share Data

As at December 31, 2017, PrairieSky had 236.0 million common shares outstanding (December 31, 2016 - 228.0 million) and 0.8 million outstanding stock options (December 31, 2016 - 1.0 million). As at February 26, 2018, there were 235.5 million common shares outstanding.

Capital Structure

The Company's objective when managing its capital structure is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends and to repurchase shares for cancellation after consideration of the Company's financial requirements for its business and future growth opportunities. As a royalty company, PrairieSky does not incur capital expenditures for oil and natural gas development, which enhances its financial flexibility.

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, common share repurchases, income taxes, available Credit Facility, share issuance costs and other factors. The Company's operating results and capital structure are impacted by the level of leasing and development activity by third parties on the Royalty Properties, commodity prices and the resultant royalty revenues, as well as the costs incurred by the Company.

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

On May 2, 2017, the Company announced the approval of the renewal of its NCIB by the Toronto Stock Exchange ("TSX"). The NCIB allows the Company to purchase for cancellation up to a maximum of 1,600,000 common shares over a twelve-month period commencing on May 4, 2017. The Company currently intends to use $44.0 million to effect NCIB purchases over the twelve-month period; however, the Company's board of directors may consider, from time to time, applying to the TSX to increase the amount of NCIB purchases. Purchases are made on the open market through the TSX or alternative platforms at the market price of such common shares. All common shares purchased under the NCIB are cancelled.

During Q4 2017, the Company purchased for cancellation 336,700 common shares (Q4 2016 - 327,000 common shares) at a weighted average price of $32.66 per common share (Q4 2016 - $30.01 per common share) including commissions for total consideration of $11.0 million (Q4 2016 - $9.9 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of $6.2 million (Q4 2016 - $5.4 million) was charged to the deficit.

During YE 2017, the Company purchased for cancellation 1,402,300 common shares (YE 2016 - 960,000 common shares) at a weighted average price of $30.09 per common share (YE 2016 - $27.04 per common share) including commissions for total consideration of $42.2 million (YE 2016 - $26.0 million). The total cost paid, including commissions and fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of $22.4 million (YE 2016 - $13.0 million) was charged to the deficit.

COMMITMENTS

CONTRACTUAL COMMITMENTS

(millions)	Expected Future Payments						
(undiscounted)	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Office lease commitments	**$ 1.5**	**$ 1.4**	**$ 1.4**	**$ 1.5**	**$ 1.7**	**$ 1.5**	**$ 9.0**

The Company has in place six royalty acquisition agreements with unrelated parties, all of which expire by December 31, 2018. At December 31, 2017, the total remaining commitments under these agreements is $14.0 million.

RISK MANAGEMENT

FINANCIAL RISKS

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

Commodity Price Risk

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

Interest Rate Risk

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

Credit Risk

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

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

A substantial portion of the Company's accounts receivable are from leases, overriding royalties 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, 2017, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. For the periods presented, the Company does not have an allowance for doubtful accounts nor does it provide for any doubtful accounts.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties funding its financial liabilities as they come due. Liquidity risk is managed by maintaining sufficient liquid financial resources to fund obligations as they come due. At December 31, 2017, the Company had working capital of $45.7 million including cash and cash equivalents of $45.1 million. The Company also has access to funding alternatives through its Credit Facility.

The Company's sources of liquidity include cash and cash equivalents, working capital funds and its Credit Facility. The primary uses of funds are acquisitions, administrative expenses, production and mineral taxes, income taxes, dividends, and the repurchase and cancellation of PrairieSky common shares.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $17.0 million, income tax payable of $11.3 million and the dividend payable of $14.7 million is less than one year. Included in accounts payable and accrued liabilities is $2.9 million related to vested cash settled DSUs which may or may not be paid in the next year.

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

FURTHER INFORMATION ON RISK FACTORS AND INDUSTRY CONDITIONS

For a detailed discussion of the risks, uncertainties and industry conditions associated with PrairieSky's business, refer to PrairieSky's Annual Information Form dated February 26, 2018 which is available at PrairieSky's SEDAR profile at www.sedar.com and at www.prairiesky.com.

ACCOUNTING JUDGMENTS, ESTIMATES AND ACCOUNTING POLICIES

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

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

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

Identification of CGUs

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

Business Combinations

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

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.

Reserve Estimates, Depletion and Impairments

Reserve estimates are not recorded in the Company's financial statements but they can have a significant impact on net earnings, as they are a key input to DD&A calculations. Royalty assets are depleted using the unit-of-production method based on proved and probable reserves using estimated future prices and costs. A downward revision in reserve estimates could result in the recognition of a higher DD&A charge to net earnings in future periods. Reserve estimates are also used to determine the fair value of royalty assets that are acquired through asset acquisitions and business combinations.

All of PrairieSky's oil and gas reserves are evaluated and reported on by independent qualified reserves evaluators. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and future costs, all of which are subject to numerous uncertainties and various interpretations. No future development capital is included in preparing PrairieSky's reserve estimates as the Company has no operational control over the development of the Royalty Properties. The impact of changes to reserves estimates on the Company's financial statements could be material.

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.

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.

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.

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.

Oil and Gas Revenue Accruals and Royalty Interests

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

Share-Based Compensation

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

For the equity-settled Stock Option Plan, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding increase to contributed surplus. When the awards are exercised, the associated contributed surplus is recognized in shareholders' capital. The Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. Judgments include which valuation is most appropriate to estimate the fair value of awards granted under the Company's Stock Option Plan, as well as the determination of the peer group used to calculate the total shareholder return under the PSU Plan.

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

Goodwill

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

Goodwill is assessed for impairment at least annually. If the carrying amount for the CGU exceeds the recoverable amount of the CGU, the associated goodwill is written down with an impairment recognized in net earnings. The recoverable amounts are determined annually based on the greater of fair value less costs of disposal or value in use. Goodwill impairments are not reversed.

Income Taxes

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

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Issued Not Yet Adopted

On April 26, 2016, the International Accounting Standards Board ("IASB") issued its final amendments to IFRS 15, "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 15 as an adjustment to opening equity at the date of initial application for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company will adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018 using the modified retrospective adoption approach. The Company has completed its review of the various revenue streams and underlying contracts with customers and concluded that the adoption of IFRS 15 will not have a material effect on its financial statements. The Company will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15 commencing in the first quarter of 2018, including disclosing the Company's disaggregated revenue streams by product type.

On July 24, 2014, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard introduces new requirements for the classification and measurement of financial assets and liabilities. Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 amends the impairment model by introducing a new model for calculating impairment and includes a new hedge accounting model that better reflects risk management activities in the financial statements of entities that elect to apply hedge accounting. IFRS 9 will apply retrospectively, for annual periods beginning on or after January 1, 2018 and early adoption is permitted. The Company will adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The Company has concluded the standard will not have a material impact on the Company's financial statements.

On January 13, 2016, the IASB issued IFRS 16, "Leases". The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019. Under the new standard, companies will recognize new assets and liabilities, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company's mineral leases are not within the scope of IFRS 16. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company does not expect the standard to have a material impact on the Company's financial statements.

CONTROL ENVIRONMENT

PrairieSky is required to comply with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), and accordingly has completed the design of internal controls.

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

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information to be disclosed by PrairieSky is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures ("DC&P") as defined in NI 52-109 to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and the CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. All control systems by their nature have inherent limitations and, therefore, the Company's DC&P are believed to provide reasonable, but not absolute, assurance that the objectives of the control system are met. The CEO and CFO of PrairieSky evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the CEO and CFO concluded that PrairieSky's DC&P were effective as at December 31, 2017.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO are responsible for establishing and maintaining internal controls over financial reporting ("ICFR"). They have designed, or caused to be designed under their supervision, ICFR as defined in NI 52-109, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objective of the control system is met. There were no changes to PrairieSky's ICFR during the period beginning on January 1, 2017 to December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR. PrairieSky conducted an evaluation of the effectiveness of the Company's ICFR as at December 31, 2017 based on the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the officers concluded that as of December 31, 2017, PrairieSky maintained effective ICFR.

SELECTED ANNUAL INFORMATION

(millions, except per share)	2017	2016	2015
Revenues	**$ 345.7**	$ 224.2	$ 215.0
Net Earnings and Comprehensive Income	**120.6**	20.0	63.0
Per Share – basic and diluted	**0.51**	0.09	0.40
Total Assets	**2,971.7**	2,770.3	2,938.2
Dividends Declared	**176.2**	186.7	206.2
Per Share	**0.7450**	0.8167	1.3000

In the past three years, PrairieSky has increased its royalty production volumes by leasing lands to third-parties for oil and natural gas development and third-party operations, as well as completing accretive acquisitions which are complementary to PrairieSky's business. Over the three years, while production volumes have increased, fluctuations in realized commodity prices have impacted the Company's royalty revenue. Net earnings have fluctuated due to changes in revenues, including a significant increase in bonus consideration in 2017, as well as increased depletion due to royalty asset growth and increased income tax expense in 2017. Dividends declared decreased from 2015 as a result of the reduction in the dividend based on the annual review by the Board in February of 2016.

SUMMARY OF QUARTERLY RESULTS AND TRENDS

(millions, unless otherwise noted)	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
FINANCIAL								
Royalty Revenue	$ 43.2	$ 43.2	$ 52.2	$ 62.8	$ 73.5	$ 69.0	$ 54.2	**$ 69.2**
Other Revenue	5.7	4.9	7.1	5.1	6.8	33.2	17.5	**22.3**
Total Revenue	48.9	48.1	59.3	67.9	80.3	102.2	71.7	**91.5**
Funds from Operations	41.4	42.8	54.2	61.8	67.3	75.0	66.8	**81.1**
Per Share – basic and diluted[(1)(2)]	0.18	0.19	0.24	0.27	0.28	0.32	0.28	**0.34**
Net Earnings (Loss) and Comprehensive Income (Loss)	1.7	(5.7)	7.9	16.1	20.8	40.5	19.4	**39.9**
Per Share – basic and diluted[(1)]	0.01	(0.02)	0.03	0.07	0.09	0.17	0.08	**0.17**
Dividends declared[(3)]	63.3	41.2	41.1	41.1	43.2	44.5	44.3	**44.2**
Per Share	0.2767	0.1800	0.1800	0.1800	0.1825	0.1875	0.1875	**0.1875**
Working Capital at Period End	202.5	171.1	168.1	44.2	97.6	108.0	98.7	**45.7**
OPERATIONAL								
Production Volumes								
Natural Gas (MMcf/d)	70.7	75.3	74.8	78.2	81.6	80.6	75.3	**75.2**
Crude Oil (bbls/d)	8,748	8,213	8,278	8,583	10,214	9,609	9,033	**9,419**
NGL (bbls/d)	2,550	2,395	2,305	2,362	2,998	2,664	2,600	**2,454**
Total (BOE/d)	23,081	23,158	23,050	23,978	26,812	25,706	24,183	**24,406**

(1) Net Earnings (Loss) and Comprehensive Income (Loss) and Funds from Operations per Share are calculated using the weighted average number of common shares outstanding.
(2) A Non-GAAP measure, which is defined under the Non-GAAP Measures section of this MD&A.
(3) A dividend of $0.0625 per common share was declared on December 14, 2017. The dividend was paid on January 15, 2018 to shareholders of record on December 29, 2017.

Quarterly variances in revenues, net earnings, and funds from operations are primarily due to fluctuations in commodity prices, production volumes, and bonus consideration. 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 benchmark WTI, which is referenced in US dollars.

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

- The WTI quarterly average of US$54.83 per bbl in Q4 2017 has increased 13% from US$48.64 per bbl in Q4 2016.
- The AECO quarterly average of $1.96 per mcf in Q4 2017 has decreased 30% from $2.82 per mcf in Q4 2016.
- Average realized NGL price of $34.80 per bbl in Q4 2017 has increased 44% from $24.14 per bbl in Q4 2016.
- Average total realized price of $30.82 per BOE in Q4 2017 has increased 8% from $28.47 per BOE in Q4 2016.

Q3 2016 revenues and funds from operations increased to $59.3 million and $54.2 million, respectively, from Q2 2016 amounts due to increased bonus consideration from leasing activity and improved natural gas pricing. Q4 2016 revenues increased as a result of increased production combined with improved commodity pricing with total realized pricing of $28.47 as compared to $24.62 in Q3 2016. Revenues continued to improve through the first half of 2017 as a result of further increases in commodity pricing and increases to production from acquisitions and incremental drilling on PrairieSky lands. Also contributing to the higher revenues in Q2 2017 was $29.5 million in bonus consideration, an increase from $3.0 million in Q1 2017. Revenues in Q3 2017 decreased as a result of a decline in bonus consideration to $15.5 million as well as reductions in royalty production and realized pricing compared to Q2 2017. Revenues and funds from operations in Q4 2017 increased compared to Q3 2017 due to recoveries in commodity pricing and an increase in bonus consideration to $19.0 million.

Net earnings and comprehensive income during 2016 were impacted by higher depletion expense as a result of the acquisition of certain royalty assets from Canadian Natural Resources Ltd. (“the Transaction”) in December 2015. A net loss was recorded in Q2 2016 due to higher depletion and deferred tax expense in combination with lower royalty revenues as a result of low natural gas pricing. Q4 2016 through Q2 2017, net earnings increased due to higher royalty revenues as a result of improved commodity prices and royalty production volumes as discussed above. Higher bonus consideration in Q2 2017 also positively impacted net earnings. Q3 2017 was affected by a reduction in bonus consideration, production volumes and realized pricing compared to Q2 2017. During Q4 2017, commodity pricing recovered and depletion was reduced due to additional reserves realized through acquisitions and 2017 incremental drilling.

Dividends declared in Q2 2016 onward decreased as a result of the reduction in the declared dividend to $0.06 per common share on a monthly basis, effective for the March 31, 2016 record date. In January 2017, the Company issued 9.2 million common shares under a bought deal prospectus offering which resulted in a higher total dividend for Q1 2017. The monthly declared dividend was increased to $0.0625 per common share for the March 31, 2017 record date.

Working capital decreased in Q4 2016 as a result of acquisitions for cash consideration made during the period. In Q1 2017, a bought deal offering of 9.2 million common shares was completed for net cash proceeds of $276.9 million which was used primarily to fund the Lindbergh Acquisition for $250 million. Working capital continued to increase in Q2 2017 as a result of funds from operations exceeding the dividend and NCIB purchases. Working capital decreased in Q3 2017and Q4 2017 as a result of cash acquisitions completed in the periods for $20.3 million and $78.2 million, respectively.

NON-GAAP MEASURES

Certain measures in this MD&A do not have any standardized meaning as prescribed by IFRS and therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. These measures are commonly used in the oil and gas industry and by the Company to provide potential investors with additional information regarding the Company’s liquidity and its ability to generate funds to finance its operations. Non-GAAP measures include Operating Netback, Operating Netback per BOE and Funds from Operations per Share – basic and diluted. Management’s use of these measures is discussed further below.

“Operating Netback” represents the cash margin for products sold. Operating Netback is calculated as royalty revenues less production and mineral taxes and administrative expenses. Operating Netback provides a consistent measure of the cash generating performance of the Royalty Properties to assess the comparability of the underlying performance between years.

“Operating Netback per BOE” represents the cash margin for products sold on a BOE basis. Operating Netback per BOE is calculated by dividing the Operating Netback by the production volumes for the period. Operating Netback per BOE is used to assess the cash generating performance per unit of product sold. Operating Netback per BOE measures are commonly used in the oil and gas industry to assess performance comparability. Refer to the Operating Results table in this MD&A document for a summary of this reporting period’s Operating Netback calculations.

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

FUNDS FROM OPERATIONS PER SHARE CALCULATIONS – BASIC AND DILUTED

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

	Three months ended December 31		Year ended December 31	
($ millions, except per share data)	**2017**	**2016**	**2017**	**2016**
Funds from Operations	**$ 81.1**	$ 61.8	**$ 290.2**	$ 200.2
Number of common shares:				
Weighted average common shares outstanding – basic	**236.2**	228.2	**236.5**	228.6
Effect of dilutive securities	**0.3**	0.3	**0.2**	0.2
Weighted average common shares outstanding – diluted	**236.5**	228.5	**236.7**	228.8
Funds from Operations per Share				
Basic and Diluted	**$ 0.34**	$ 0.27	**$ 1.23**	$ 0.88

ADVISORY

FORWARD-LOOKING STATEMENTS

This MD&A includes certain statements regarding PrairieSky's future plans and operations as at February 26, 2018, and contains forward-looking statements that we believe allow readers to better understand our business and prospects. Forward-looking statements contained in this MD&A include our expectations with respect to the following:

- commodity prices including supply and demand factors relating to crude oil, natural gas and NGL;
- expected future commitments and payments related thereto;
- PrairieSky's business and growth strategy and anticipated sources of future income;
- PrairieSky's dividend policy and its intention to distribute a majority of cash flow as dividends to shareholders over time, which intention could change with little or no notice;
- PrairieSky's normal course issuer bid and specifically the volume and value of future repurchases under the normal course issuer bid;
- the manner in which PrairieSky manages collection and credit risk and its belief that the diversity of payors and products mitigate this risk;
- possible revisions to accrued estimates based on receipt of actual results;
- impact of compliance activities and recoveries, which vary quarterly;
- impact of bonus consideration, which varies quarterly;
- increase in cash administrative expenses in the first quarter of 2018;
- 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;

- the ability to mitigate the risks of fluctuations in commodity prices and production volumes, including but not limited to impacts from shut-in production volumes, plant turnarounds and pipeline outages and restrictions; 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, political and geopolitical instability, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to the acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with third parties, and limited ability to recover indemnification from such third parties under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's Annual Information Form and in this MD&A under the heading "Risk Management".

With respect to forward-looking statements contained in this MD&A, we have made assumptions regarding, among other things, the ability of the lessees and working interest owners on the Royalty Properties to maintain or increase production and reserves from these properties; the ability and willingness of the lessees and working interest owners on the Royalty Properties to comply with, and PrairieSky to enforce, lease terms and contractual provisions, as applicable, in order to receive payments; the ability of the lessees or working interest owners on the Royalty Properties to operate in a safe, efficient and effective manner; the timely receipt of any required regulatory approvals by lessees or working interest owners on the Royalty Properties; the willingness and financial capability of the lessees and working interest owners to continue to develop and invest additional capital in the Royalty Properties; the ability of the lessees and working interest owners on the Royalty Properties to obtain financing on acceptable terms to fund capital expenditures; field production rates, decline rates and the well performance and characteristics of the Royalty Properties; the ability to replace and increase crude oil, natural gas and NGL reserves and production associated with the Royalty Properties through third-party development and complementary acquisitions; the timing, cost and ability of third parties to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of the operators of the properties in which PrairieSky has a royalty interest in, to successfully market their respective petroleum and natural gas products or, for royalty payments taken-in-kind by PrairieSky, the ability of PrairieSky or a third party marketer to successfully market PrairieSky's in-kind petroleum and natural gas products; surface rights access being granted to third parties on PrairieSky's properties; the benefits of the seismic data anticipated to be used by PrairieSky and sub-licensed to lessees on the PrairieSky's properties; the level of costs and expenses to be incurred by PrairieSky, including with respect to interest, general and administrative expenses and income tax expenses; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against or involving PrairieSky; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in crude oil and natural gas properties; future crude oil, natural gas and NGL prices and currency, exchange and interest rates; and PrairieSky's ability execute the volume and/or value of purchases as described under the normal course issuer bid.

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

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

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

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

CONVERSIONS OF NATURAL GAS TO BOE

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

CURRENCY AND REFERENCES TO PRAIRIESKY

All information included in this MD&A, and the audited annual consolidated financial statements is shown on a Canadian dollar basis.

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

ADDITIONAL INFORMATION

Additional information about PrairieSky, including the 2017 audited annual consolidated financial statements and notes thereto, and PrairieSky's Annual Information Form, is available on SEDAR at www.sedar.com or PrairieSky's website at www.prairiesky.com.