



# PrairieSky Royalty Ltd.

## Financial Statements

For the period ended December 31, 2014

(Prepared in Canadian Dollars)



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of PrairieSky Royalty Ltd.

We have audited the accompanying financial statements of PrairieSky Royalty Ltd., which comprise the statements of financial position as at December 31, 2014 and 2013, the statements of earnings and comprehensive income, shareholders' equity and cash flow for the period from May 27, 2014 to December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of PrairieSky Royalty Ltd. as at December 31, 2014 and 2013 and its financial performance and its cash flows for the period from May 27, 2014 to December 31, 2014 in accordance with International Financial Reporting Standards.

Chartered Accountants

February 23, 2015  
Calgary, Canada

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## STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

(\$ millions, except per share amounts)		For the period May 27, 2014 to December 31, 2014
<b>Revenues</b>	<i>(Note 6)</i>	<b>\$ 198.7</b>
<b>Expenses</b>		
Freehold mineral taxes		5.7
Depreciation, depletion and amortization	<i>(Note 11)</i>	24.8
Administrative	<i>(Note 7)</i>	16.0
Net Earnings before finance items and income taxes		152.2
<b>Finance Items</b>		
Finance income		(0.7)
Finance expense		0.3
<b>Net Earnings Before Income Tax</b>		<b>152.6</b>
Income tax expense	<i>(Note 8)</i>	(16.3)
<b>Net Earnings and Comprehensive Income</b>		<b>\$ 136.3</b>
<b>Net Earnings per Common Share</b>	<i>(Note 16)</i>	
Basic and Diluted		<b>\$ 1.75</b>

See accompanying Notes to Financial Statements

## STATEMENT OF FINANCIAL POSITION

(\$ millions)		As at December 31, 2014	As at December 31, 2013
<b>Assets</b>			
Current Assets			
Cash and cash equivalents		\$ 63.1	\$ 0.1
Accounts receivable and accrued revenues	(Note 9)	67.1	-
Prepaid expense		0.4	-
		<b>130.6</b>	0.1
Royalty Assets, net	(Note 11)	532.6	-
Exploration and Evaluation Assets	(Note 12)	107.8	-
Other Assets	(Note 13)	11.2	-
Goodwill	(Note 14)	337.9	-
		<b>\$ 1,120.1</b>	<b>\$ 0.1</b>
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities			
Accounts payable and accrued liabilities	(Note 15)	\$ 25.5	\$ -
Income tax payable		20.3	-
Dividend payable	(Note 16)	15.8	-
		<b>61.6</b>	-
Share-based Compensation Payable	(Note 17)	1.4	-
Deferred Income Taxes	(Note 8)	93.1	-
		<b>156.1</b>	-
<b>Shareholders' Equity</b>			
Shareholders' capital	(Note 16)	1,181.0	-
Reserve from common control	(Note 5)	(255.7)	-
Paid in surplus	(Note 17)	0.7	0.1
Retained earnings		38.0	-
<b>Total Shareholders' Equity</b>		<b>964.0</b>	<b>0.1</b>
<b>Commitments</b>	(Note 21)		
		<b>\$ 1,120.1</b>	<b>\$ 0.1</b>

See accompanying Notes to Financial Statements

Approved on behalf of the Board of Directors of PrairieSky Royalty Ltd.:

(signed) "James M. Estey"

Director

(signed) "Margaret A. McKenzie"

Director

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(\$ millions)	Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings	Total Shareholders' Equity
<b>Balance at December 31, 2013</b>	\$ -	\$ -	\$ 0.1	\$ -	\$ 0.1
Net earnings	-	-	-	136.3	136.3
Common shares issued:					
Pursuant to the Acquisition (Note 5)	555.7	(255.7)	-	-	300.0
Pursuant to Private Co. acquisition (Note 10)	625.3	-	-	-	625.3
Share-based compensation (Note 17)	-	-	0.6	-	0.6
Dividends on common shares (Note 16)	-	-	-	(98.3)	(98.3)
<b>Balance at December 31, 2014</b>	<b>\$1,181.0</b>	<b>\$ (255.7)</b>	<b>\$ 0.7</b>	<b>\$ 38.0</b>	<b>\$ 964.0</b>

## STATEMENT OF CASH FLOWS

(\$ millions)	For the period May 27, 2014 to December 31, 2014
<b>Operating Activities</b>	
Net earnings	\$ 136.3
Depreciation, depletion and amortization (Note 11)	24.8
Deferred income taxes (Note 8)	(4.0)
Share-based compensation (Note 17)	2.7
Other non-cash item	(2.9)
Net change in other assets	2.0
Net change in non-cash working capital (Note 20)	26.0
Cash From Operating Activities	184.9
<b>Investing Activities</b>	
Acquisitions (Notes 11, 12)	(14.7)
Cash Used in Investing Activities	(14.7)
<b>Financing Activities</b>	
Dividends on common shares (Note 16)	(82.5)
Debt repayment (Note 10)	(24.5)
Financing costs	(0.2)
Cash Used in Financing Activities	(107.2)
<b>Increase in Cash and Cash Equivalents</b>	<b>63.0</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>0.1</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 63.1</b>

See accompanying Notes to Financial Statements

## 1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. (“PrairieSky” or the “Company”) is focused on: (i) strategically leasing oil and gas fee lands; and (ii) acquiring additional lands or interests, in each case to generate royalties.

The Company was incorporated under the *Business Corporations Act* (Alberta) under the name 1786071 Alberta Ltd. on November 27, 2013. On April 11, 2014, the Company filed articles of amendment to change its name to “PrairieSky Royalty Ltd.”. The Company had no significant operating activity from the date of incorporation until May 27, 2014, when it acquired a royalty business (the “Acquisition”) whose assets are comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas liquids and certain other mineral rights located predominantly in central and southern Alberta (the “Fee Lands”); (ii) lessor interests in and to leases that are currently issued in respect of certain Fee Lands; (iii) royalty interests, including overriding royalty interests, gross overriding royalty interests and production payments on lands located predominantly in Alberta; (iv) an irrevocable, perpetual licence to certain proprietary seismic data of Encana Corporation (“Encana”); and (v) certain other related assets as set forth in the Purchase and Sale Agreement (“PSA”) between the Company and Encana (collectively, the “Acquired Business”). On May 29, 2014, the initial public offering (“IPO”) was completed and the Company’s common shares (“Common Shares”) were listed and posted for trading on the Toronto Stock Exchange (“TSX”) under the stock symbol “PSK”.

The location of the head and registered office of the Company is Suite 1900, 411 – 1 Street S.E., Calgary, Alberta, T2G 4Y5.

## 2. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These Financial Statements have been prepared on a historical cost basis, except for share-based payment transactions. The Financial Statements have been prepared on a going concern basis and amounts are in millions of Canadian dollars unless otherwise stated.

These Financial Statements were approved and authorized for issuance by the Company’s Board of Directors on February 23, 2015.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The timely preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities, revenues and expenses and disclosures of contingent assets and liabilities as at the date of the Financial Statements. Such 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. Significant estimates and judgments made by management in the preparation of these Financial Statements are outlined below.

#### Critical Judgments in Applying Accounting Policies

The following are the critical judgments that management has made in the process of applying the Company’s accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

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 disposition of assets and operations, and the nature of the 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.

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

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".

### **Critical Accounting Estimates**

The following are the key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing future adjustments to the carrying amounts of assets and liabilities.

Amounts recorded for depreciation, depletion and amortization ("DD&A") and amounts used for impairment calculations are based on estimates of crude oil, natural gas liquids ("NGL") and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact in the Financial Statements of future periods could be material.

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the period of change and future periods. 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.

The Company follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of production, royalty revenues and related expenses for the period 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.

Refer to Note 3(P) regarding estimation uncertainty with respect to fair values assigned in a business combination.

## **B) FUNCTIONAL AND PRESENTATION CURRENCY**

These Financial Statements are presented in Canadian dollars, which is the functional currency of PrairieSky.

## **C) REVENUE RECOGNITION**

Royalty revenue on the sale of crude oil, NGL and natural gas is recognized when the product is produced. Revenue is measured at fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the lease agreements. Differences between estimates and actual amounts are adjusted and recorded in the period that the actual amounts are received.

## D) FREEHOLD MINERAL TAXES

Mineral taxes paid to the Alberta provincial government based on production of crude oil, NGL and natural gas are recognized when the product is produced.

## E) SHARE-BASED COMPENSATION

The Company's long term incentive plans include a Stock Option Plan, Restricted Share Unit ("RSU") Plan, Performance Share Unit ("PSU") Plan, and a Deferred Share Unit ("DSU") Plan. Obligations for payments of cash or Common Shares under the Company's long term incentive plans are accrued over the vesting period using fair values. Judgments include which valuation model is most appropriate to estimate fair value of awards granted. Estimates and assumptions are then used in the valuation model to determine the fair value.

For the equity-settled Stock Option Plan, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding credit to Shareholders' Equity. The Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in Note 17.

For the cash-settled RSU, PSU and DSU Plans, fair values are determined at each reporting date based on the market value of the Company's Common Shares and are recognized over the vesting period as compensation costs, with a corresponding credit to liabilities. Changes in the fair values are recognized as compensation costs in the period they occur. The fair value of RSUs at the grant date are estimated based on the volume weighted average trading price on the TSX for five trading days before one business day prior to the date of grant, except for the initial grant which was based on the IPO price. Judgment is also required to estimate the number of RSUs that will ultimately vest.

## F) 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.



## **G) EARNINGS PER SHARE AMOUNTS**

Basic net earnings per common share is computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share amounts are calculated giving effect to the potential dilution that would occur if stock options were exercised or other contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options and other dilutive instruments are used to repurchase common shares at the average market price.

## **H) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand and short-term investments, such as money market deposits or similar type instruments, with a maturity of three months or less when purchased.

## **I) EXPLORATION AND EVALUATION**

Exploration and evaluation (“E&E”) assets consist of expenditures incurred in an exploration area pending the determination of technical feasibility and commercial viability. These costs generally include unproved property acquisition costs, undeveloped land, mineral leases and seismic costs. Costs incurred prior to acquiring the legal rights to evaluate an area are charged directly to net earnings as E&E expense.

Technical feasibility and commercial viability is considered to be determinable when proved reserves are determined to exist and are capable of economic production. When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to royalty assets. When an area is determined not to be technically feasible and commercially viable, the unrecoverable costs are charged to net earnings as E&E expense.

## **J) ROYALTY ASSETS**

All costs directly associated with fee simple lands and royalty interests are capitalized on an area-by-area basis. Costs include acquisitions of royalty interests with proved or probable reserves, transfers of exploration and evaluation assets and the carrying value of royalty assets transferred from Encana.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs.

For divestitures of properties, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

Costs associated with office furniture, fixtures, leasehold improvements and information technology are carried at cost and depreciated on a straight-line basis over the estimated service lives of the assets, which range from three to 10 years.

## **K) 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. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred. When a business combination includes a non-controlling interest, the non-controlling interest is initially measured based on either its fair value or its proportionate share of the fair value of identifiable net assets acquired.

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

## **L) 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 is the amount obtainable from the sale of assets in an arm's length transaction less costs of disposal. 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.

## **M) IMPAIRMENT OF LONG-TERM ASSETS**

The carrying value of long-term assets, excluding goodwill, is reviewed at each reporting date for indicators that the carrying value of an asset or CGU may not be recoverable. E&E assets are also reviewed for impairment indicators upon reclassification from exploration and evaluation to royalty assets. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Based on the interdependency of the cash flows and the common geographic location of Fee Lands, costs capitalized in areas within royalty assets and exploration and evaluation are aggregated into one CGU.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal or its value in use. Fair value less costs of disposal is the amount obtainable from the sale of assets in an arm's length transaction less costs of disposal. 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.

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. The recoverable amount is limited to the original carrying amount less accumulated depletion, as if no impairment had been recognized for the asset or CGU for prior periods.

## **N) PROVISIONS AND CONTINGENCIES**

Provisions are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation. Provisions are measured based on the discounted expected future cash outflows.

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the Financial Statements as the best estimate required to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the Financial Statements.

## O) FINANCIAL INSTRUMENTS

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "other financial liabilities" as defined by the accounting standard.

Financial assets and financial liabilities at "fair value through profit or loss" are either classified as "held for trading" or "designated at fair value through profit or loss" and are measured at fair value with changes in those fair values recognized in net earnings. Financial assets classified as "loans and receivables", "held-to-maturity", and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. Financial assets classified as "available-for-sale" are measured at fair value, with changes in fair value recognized in other comprehensive income.

Accounts receivable and accrued revenues and royalty note receivable are classified as "loans and receivables" and are measured at amortized cost. Accounts payable and accrued liabilities and dividends payable are classified as "other financial liabilities" and are measured at amortized cost. The Company has not designated any financial instruments as "available-for-sale", "held-to-maturity" or "fair value through profit and loss".

## P) FAIR VALUE MEASUREMENTS

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of royalty assets recognized in a business combination is based on market values. The market value of royalty assets is the estimated amount for which royalty assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and with compulsion. The market value of royalty assets are estimated with reference to the cash flow multiples from production based on cash flow multiples of the same or similar assets. The market value of E&E assets are estimated with reference to the market values of current arm's length transactions in comparable locations.

The fair value of cash and cash equivalents, accounts receivable and accrued revenues, royalty note receivable, dividends payable, accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

A three level hierarchy that reflects the significance of the inputs used in making the fair value measurements is required. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. In the absence of an active market, assets and liabilities in Level 2 include models to determine fair value using inputs other than quoted

prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

## Q) 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, 2017. The Company is currently assessing the potential impact of the standard on the Company's Financial Statements.

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

## 4. CHANGE IN ACCOUNTING ESTIMATE

On May 27, 2014, the Company began depleting crude oil, NGL, and natural gas properties using the unit-of-production method over their proved plus probable reserves on a prospective basis. The previous policy was to deplete using the unit-of production method over the proved reserves. The change in estimate was made as proved plus probable reserves better reflects the estimated remaining service life of the related assets. For the period from May 27, 2014 to December 31, 2014, the Company recorded \$4.1 million lower depletion expense than it would have recorded using proved reserves. Based on the reserves at the date of change in estimate, the effect reduced depletion by \$1.64 per barrel of oil equivalent. It is not practical for the Company to estimate the effect on depletion expense for future periods.

## 5. COMMON CONTROL TRANSACTION

The Company commenced active operations on May 27, 2014 following the completion of the Acquisition. The Company was a wholly owned subsidiary and controlled by Encana prior to closing the IPO, and remained controlled by Encana immediately subsequent to closing. Consequently the entity was under common control at the time of the Acquisition. The Acquisition has been accounted for using the predecessor values at the date of transaction method, whereby the Acquired Business is transferred to the Company based on the historical carrying value carved out of Encana. Pursuant to the Acquisition, the Company issued 129.994 million Common Shares to Encana in exchange for the Acquired Business.

The following table summarizes the predecessor carrying value of the net assets transferred as at May 27, 2014:

Carrying value of net assets acquired:

Exploration and evaluation assets	\$ 6.8
Royalty assets, net	181.2
Other assets	16.5
Goodwill	57.8
Net working capital	37.7
	<b>\$ 300.0</b>

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

Common shares	<i>(Note 16)</i>	\$ 555.7
Carrying value of net assets acquired		<b>(300.0)</b>
<b>Reserve from common control</b>		<b>\$ 255.7</b>

Under the terms of the PSA, the Company acquired tax pools of approximately \$500 million relating to the Acquired Business, which is described further in Note 8.

## 6. REVENUES

	For the period May 27, 2014 to December 31, 2014
Royalty revenues	\$ 180.1
Lease rentals, bonus consideration and other	18.6
<b>Total Revenues</b>	<b>\$ 198.7</b>

## 7. ADMINISTRATIVE EXPENSE

	For the period May 27, 2014 to December 31, 2014
Salaries and benefits	\$ 7.9
Share-based compensation	<i>(Note 17)</i> 2.7
Office expense	1.7
Public company expense	0.9
Information technology and other	1.2
Private Co. acquisition costs	<i>(Note 10)</i> 1.6
	<b>\$ 16.0</b>

## 8. INCOME TAXES

	For the period May 27, 2014 to December 31, 2014
Current tax expense	\$ 20.3
Deferred tax recovery	(4.0)
<b>Income tax expense</b>	<b>\$ 16.3</b>

The following table reconciles income taxes calculated at the Canadian statutory rate with actual income taxes:

	For the period May 27, 2014 to December 31, 2014
Net Earnings Before Income Tax	\$ 152.6
Canadian Statutory Rate	25.0%
Expected Income Tax	38.2
Effect on Taxes Resulting From:	
Permanent Differences	(22.1)
Statutory Rate Difference	0.1
Other	0.1
<b>Income tax expense</b>	<b>\$ 16.3</b>

Under the terms of the Acquisition (Notes 1 and 5), the Company acquired tax pools in the amount of approximately \$500 million. The Company has not recognized tax deductible temporary differences of \$225.3 million as at December 31, 2014 related to the excess of tax pools acquired over the carrying value of net assets transferred because the common control transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 "Income Taxes". Deferred income tax liabilities and assets are not recognized for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable benefit. The unrecognized deferred income tax asset is being amortized based on the net tax pool claims calculated for the period. The reversal of the unrecognized deferred tax asset for the period from May 27, 2014 to December 31, 2014 was \$22.0 million.

The deferred income tax charged (credited) to the Statement of Earnings and Comprehensive Income and the net deferred income tax liability consists of:

	Recognized in net income	Acquired in Business Combination	Balance, December 31, 2014
Royalty assets and E&E assets	\$ (3.5)	\$ 99.1	\$ 95.6
Non-capital loss carry forwards	-	(2.0)	(2.0)
Share based compensation	(0.5)	-	(0.5)
<b>Total</b>	<b>\$ (4.0)</b>	<b>\$ 97.1</b>	<b>\$ 93.1</b>

## 9. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES

	As at December 31, 2014	As at December 31, 2013
Trade receivable and accrued revenues	\$ 63.4	\$ -
Current portion of note receivable	(Note 13) 3.7	-
	<b>\$ 67.1</b>	<b>\$ -</b>

Trade receivable and accrued revenues relate to lease and royalty payments from third parties and from Encana. The analysis of accounts receivable and accrued revenues that are past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired	
			4 - 6 Months	7 - 12 Months
As at December 31, 2014	\$ 67.1	\$ 60.7	\$ 5.5	\$ 0.9

As at December 31, 2014 and December 31, 2013, there was no allowance or provisions made for doubtful accounts. In determining the recoverability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivable and the credit worthiness of the counterparties. See Note 19 for further information about credit risk.

## 10. BUSINESS COMBINATIONS

### A) Acquisition of Private Co.

On December 19, 2014, PrairieSky acquired a private limited partnership and a private corporation acting as its general partner (collectively, "Private Co.") in exchange for 19.3 million Common Shares, valued at the December 19, 2014 closing price of \$32.35 per share. On December 19, 2014, Private Co. was amalgamated with the Company.

Acquiring Private Co. provided PrairieSky with additional royalty production, royalty lands and strategic expansion into the province of Saskatchewan.

#### Consideration:

Issuance of 19.3 million common shares of PrairieSky	\$ 625.3
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#### Net Assets Acquired:

Working capital	\$ 7.4
Royalty assets	364.6
Exploration and evaluation assets	94.8
Debt	(24.5)
Goodwill	280.1
Deferred income taxes	(97.1)
<b>Net assets acquired</b>	<b>\$ 625.3</b>

The debt assumed in the business combination was repaid from existing cash on hand immediately following the closing of the acquisition and Private Co.'s credit facility was cancelled.

The value attributed to the royalty assets acquired was determined with reference to cash flow multiples for similar transactions.

The value attributed to the exploration and evaluation assets was determined with reference to recent undeveloped land acquisitions in close proximity to the interests purchased.

The goodwill is attributable to synergies achieved from integrating Private Co. into the Company's existing business due to the increase in royalty land position and alignment to the Company's strategic objective to expand its portfolio of royalties and lands with future prospects. The addition of professionals with royalty expertise also contribute to the administrative and operational synergies.



The transaction costs of \$1.6 million are included in administrative expenses.

From the date of acquisition of Private Co. to December 31, 2014, approximately \$1.2 million of revenue and \$0.9 million of net loss was recognized. If this business combination had been effective upon commencement of active operations on May 27, 2014, management estimates that pro forma revenues and pro forma net income for the period from May 27, 2014 to December 31, 2014 would have been approximately \$225 million and \$109 million, respectively. In calculating the pro forma information, the results of Private Co. for the period before acquisition have been adjusted for fair value adjustments recorded on acquisition.

## B) Other Acquisition

On July 31, 2014, PrairieSky acquired royalty interests from a third party oil and gas producer for a cash purchase price of \$9.0 million. The estimated fair value of the acquired assets was determined using both internal estimates and an independent reserve evaluation. The estimated fair value of the business combination consisted of royalty assets with a fair value of \$9.0 million in exchange for cash consideration of \$9.0 million. This business combination was funded using PrairieSky's existing cash balances.

From the date of acquisition to December 31, 2014, approximately \$0.6 million of revenue and approximately \$0.4 million of net income was recognized. If this business combination had been effective upon commencement of active operations on May 27, 2014, management estimates that pro forma revenues and pro forma net income for the period from May 27, 2014 to December 31, 2014 would have been approximately \$200 million and \$137 million, respectively.

## 11. ROYALTY ASSETS, NET

		As at December 31, 2014	As at December 31, 2013
<b>Cost</b>			
Assets transferred on May 27, 2014	<i>(Note 5)</i>	\$ 181.2	\$ -
Other acquisitions	<i>(Note 10)</i>	11.6	-
Acquisition of Private Co.	<i>(Note 10)</i>	364.6	-
Balance, end of period		557.4	-
<b>Accumulated Depreciation, Depletion and Amortization</b>			
Depreciation, depletion and amortization		(24.8)	-
Balance, end of period		(24.8)	-
<b>Net book value, end of period</b>		<b>\$ 532.6</b>	<b>\$ -</b>

During the period ended December 31, 2014, \$1.5 million of royalty rights were received as settlement of a non-performance fee.

## 12. EXPLORATION AND EVALUATION ASSETS

		As at December 31, 2014	As at December 31, 2013
<b>Cost</b>			
Assets transferred on May 27, 2014	<i>(Note 5)</i>	\$ 6.8	\$ -
Other acquisitions		6.2	-
Acquisition of Private Co.	<i>(Note 10)</i>	94.8	-
Balance, end of period		\$ 107.8	\$ -

During the period ended December 31, 2014, the Company exchanged lease issuance bonus proceeds for E&E assets valued at \$1.6 million.



### 13. OTHER ASSETS

At December 31, 2014, other assets relates to a royalty note receivable of \$14.8 million payable in equal monthly instalments over the next four years bearing annual interest of four percent per annum. The current portion of the note receivable of \$3.7 million is included in accounts receivable and accrued revenues as disclosed in Note 9. The estimated fair value of other assets is categorized within Level 2 of the fair value hierarchy and has been determined based on market information where available using estimated interest rates based on the credit quality of the customer. As at December 31, 2014, the royalty note receivable had a fair value of \$14.6 million.

### 14. GOODWILL

Goodwill is assessed for impairment at least annually. The recoverable amount of the Company's sole CGU used to assess goodwill was determined using fair value less costs of disposal. Fair value less costs of disposal was estimated for the CGU using cash flow multiples from production of same or similar assets. The estimated fair value of goodwill is categorized within Level 3 of the fair value hierarchy. The Company's impairment testing indicated that there was no impairment as at December 31, 2014. At December 31, 2014, the market capitalization of the Company was \$4.6 billion.

Goodwill was attributed to the Company based on the historical carrying values carved-out of Encana as described in Note 5 and also arose from the acquisition of Private Co. as described in Note 10. In conjunction with the carve-out, the Company's goodwill was assessed for impairment, and no impairment was recognized.

#### Goodwill

Assets transferred on May 27, 2014	(Note 5)	\$	57.8
Acquisition of Private Co.	(Note 10)		280.1
		\$	337.9

### 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2014	As at December 31, 2013
Trade payables	\$ 4.1	\$ -
Freehold mineral taxes payable	13.9	-
Accrued liabilities	7.5	-
	\$ 25.5	\$ -

Accrued liabilities primarily include amounts related to the Acquisition on May 27, 2014, share-based compensation accruals and salary related accruals.

### 16. SHARE CAPITAL

#### AUTHORIZED

The authorized share capital of the Company includes an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series. The holders of the Common Shares are entitled to one vote in respect of each Common Share held at all meetings of shareholders, except meetings at which only holders of a specified class of share have the right to vote. As at December 31, 2014, 149.3 million Common Shares and nil Preferred Shares were issued and outstanding.

## ISSUED AND OUTSTANDING

The following table summarizes the change in Common Shares issued and outstanding for the period ended December 31, 2014:

	Number of Shares (millions)	Amount (\$ millions)
Balance at inception on November 27, 2013	-	\$ -
Common Shares issued	25.0	-
<b>Balance at December 31, 2013</b>	<b>25.0</b>	-
Share consolidation	(25.0)	-
Issued pursuant to the Acquisition <span style="float: right;"><i>(Note 5)</i></span>	130.0	555.7
Issued pursuant to Private Co. Acquisition <span style="float: right;"><i>(Note 10)</i></span>	19.3	625.3
<b>Issued and outstanding, end of year</b>	<b>149.3</b>	<b>\$ 1,181.0</b>

## COMMON SHARES

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

### Share Consolidation

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

### Acquisition of Royalty Business

On May 22, 2014, the Company and Encana entered into the PSA for the acquisition of the Acquired Business from Encana, pursuant to which Encana received 129.994 million Common Shares as consideration. Under the PSA, the legal stated capital maintained by the Company for the Common Shares issued to Encana was \$555.7 million comprised of the following:

	Amount (\$ millions)
Tax pools	\$ 500.0
Working capital	37.7
Royalty note receivable	16.5
Other	1.5
<b>Stated Capital</b>	<b>\$ 555.7</b>

### Initial Public Offering

On May 22, 2014, a final prospectus was filed qualifying the distribution of 52.0 million Common Shares which were sold by Encana pursuant to the terms of an underwriting agreement dated May 22, 2014 at a price of \$28.00 per Common Share which closed on May 29, 2014. On June 3, 2014, the underwriters exercised the over-allotment option resulting in an additional 7.8 million Common Shares being sold by Encana at a price of \$28.00 per Common Share. The Company did not receive any proceeds from the IPO nor was it responsible for any fees or expenses of the IPO. Subsequent to the IPO, Encana owned 54% of the outstanding Common Shares.

On May 29, 2014, the Company and Encana entered into, among other agreements: (i) a Governance Agreement, which governed various aspects of the relationship; and (ii) an Investor Liquidity Agreement, which provided Encana or its transferee the ability to require the Company, among other things, to file future

prospectuses in respect of the distribution of all or a portion of the Common Shares held by Encana or its transferee. The Governance Agreement and the Liquidity Agreement terminated, in accordance with their terms, on completion of a secondary public offering by Encana on September 26, 2014, as described below.

### Secondary Offering

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

### DIVIDENDS

During the period from May 27, 2014 to December 31, 2014, PrairieSky paid dividends of \$0.6348 (2013 – nil) per Common Share totaling \$82.5 million (2013 - nil). On December 15, 2014, the Board declared a dividend of \$0.1058 per Common Share payable on January 15, 2015 to common shareholders of record as of December 31, 2014.

On December 19, 2014, the Company increased its annual dividend from \$1.27 per share to \$1.30 per share, which will be paid monthly commencing in February 2015 to shareholders of record as at January 30, 2015.

### EARNINGS PER SHARE

The following table presents the computation of Net Earnings per Common Share:

	Period Ended December 31, 2014
Net Earnings	\$ 136.3
Number of common shares:	
Weighted average common shares outstanding – Basic <sup>(1)</sup>	77.9
Effect of dilutive securities	0.1
Weighted average common shares outstanding - Diluted <sup>(2)</sup>	78.0
Net Earnings per Common Share Basic and Diluted	\$ 1.75

<sup>(1)</sup> Weighted average common shares outstanding – Basic is calculated using the number of common share outstanding from January 1, 2014 to December 31, 2014.

<sup>(2)</sup> Weighted average common shares outstanding – Diluted is calculated using the number of common shares outstanding from January 1, 2014 to December 31, 2014, giving effect to stock options.

## 17. SHARE-BASED COMPENSATION PLANS

The Company has a number of share-based compensation arrangements under which the Company awards various types of long-term incentive grants to eligible employees, officers and directors. They include stock options, PSUs, RSUs, and DSUs.

The Company accounts for stock options granted to Company employees as equity-settled share-based payment transactions and accrues compensation costs over the vesting period based on the fair values determined at the grant date

The Company accounts for PSUs, RSUs and DSUs held by Company employees, officers and directors as cash-settled share-based payment transactions and accrues compensation costs and dividends over the vesting period based on the fair value of the rights. PSUs vest immediately following the completion of a three year performance period provided the employee remains actively employed with the Company on the vesting date. RSUs granted to employees vest 30% after the second anniversary of the date of grant and

the remaining 70% vest after the third anniversary, provided the employee remains actively employed with the Company on the vesting date. RSUs granted to officers of the Company fully vest three years from the date of grant provided the employee remains actively employed with the Company on the vesting date. DSUs are fully vested as of the grant date. See Note 22 for further information regarding the compensation plans for key management personnel.

As at December 31, 2014, the following weighted average assumptions were used to determine the fair value of stock options and share-based units granted by the Company:

Risk free interest rate	1.53%
Dividend yield	4.53%
Expected volatility rate	25%
Forfeiture rate	6.4%
Expected life	5 yrs
Weighted average grant price	\$29.01
Common share price at December 31, 2014	\$30.60

The Company has recognized the following share-based compensation costs:

	For the period May 27, 2014 to December 31, 2014
Compensation costs of transactions classified as equity-settled	\$ 0.6
Compensation costs of transactions classified as cash-settled	2.1
<b>Total share-based compensation expense</b>	<b>\$ 2.7</b>

As at December 31, 2014, the liability for share-based payment transactions totaled \$2.1 million.

	As at December 31, 2014	As at December 31, 2013
Liability for unvested cash-settled plans	\$ 1.4	\$ -
Liability for vested cash-settled plans	0.7	-
<b>Liability for cash-settled plans</b>	<b>\$ 2.1</b>	<b>\$ -</b>

The following outlines certain information related to the Company's compensation plans as at December 31, 2014:

#### A) STOCK OPTIONS

The Company has a Stock Option Plan that provides for granting of stock options to officers and certain employees. The stock options granted vest over a three year period and expire five years after the date of the grant.

The following table summarizes the change in stock options outstanding:

	For the period May 27, 2014 to December 31, 2014
	Number of Shares (thousands)
Granted	529.0
Exercised	-
Forfeited	(17.5)
Expired	-
<b>Issued and outstanding, end of period</b>	<b>511.5</b>

The following table summarizes information regarding stock options outstanding at December 31, 2014:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining vesting period (years)	Weighted average exercise price for options outstanding (\$/share)	Number of options exercisable	Weighted average exercise price for options exercisable (\$/share)	Weighted average fair value for options outstanding (\$/share)
\$28.00-\$39.03	511,506	1.53	29.01	-	-	3.93

For the period from May 27, 2014 to December 31, 2014, administrative expense includes \$0.6 million of compensation costs related to stock options.

## B) PERFORMANCE SHARE UNITS

PSUs have been granted to eligible employees during the period which entitles the employee to receive, upon vesting, a cash payment, depending on the terms of the PSU grant, that is equal to the value of one Common Share of the Company for each PSU held, plus accrued dividends over the period from the date of grant to vesting. PSUs vest immediately following completion of the performance period, provided the employee remains actively employed with the Company on the vesting date.

The ultimate value of the PSUs will depend upon the Company's performance relative to predetermined corresponding performance targets measured over a three-year period. Performance is based on the Company's Total Shareholder Return ("TSR"), defined as share price appreciation plus dividends, relative to the TSR for a predetermined performance peer group. Based on this assessment, a range of zero to two times the original PSU grant, at the discretion of the Board of Directors, may be eligible to vest in respect of the three year trailing period being measured.

The following table summarizes information related to the PSUs:

<i>(thousands of units)</i>	<b>For the period May 27, 2014 to December 31, 2014</b>
	Outstanding PSUs
Granted	66.4
Units, in Lieu of Dividends	1.4
Forfeited	-
<b>Issued and outstanding, end of period</b>	<b>67.8</b>

For the period from May 27, 2014 to December 31, 2014, the Company recorded compensation costs of \$0.7 million related to outstanding PSUs. The remaining weighted average life is 2.4 years.

## C) RESTRICTED SHARE UNITS

RSUs have been granted to eligible employees during the period which entitles the employee to receive, upon vesting, a cash payment, depending on the terms of the RSU Plan, that is equal to the value of one Common Share for each RSU held, plus accrued dividends over the period from the date of grant to vesting. RSUs vest over three years, provided the employee remains actively employed with the Company on the vesting date.

The following table summarizes information related to the RSUs:

	<b>For the period May 27, 2014 to December 31, 2014</b>
<i>(thousands of units)</i>	Outstanding RSUs
Granted	124.3
Units, in Lieu of Dividends	2.4
Forfeited	(14.4)
<b>Issued and outstanding, end of period</b>	<b>112.3</b>

For the period from May 27, 2014 to December 31, 2014, the Company recorded compensation costs of \$0.7 million related to outstanding RSUs. The remaining weighted average life is 2.28 years.

#### D) DEFERRED SHARE UNITS

Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee retainers and fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a Common Share and accrued dividends and are settled in cash. DSUs can only be redeemed following departure from the Company and must be redeemed prior to December 15th of the year following the departure from the Company. For the period from May 29, 2014 to December 31, 2014, all of the Directors have elected to receive their annual Board and Committee retainers and fees in the form of DSUs.

The following table summarizes information related to the DSUs:

	<b>For the period May 27, 2014 to December 31, 2014</b>
<i>(thousands of units)</i>	Outstanding DSUs
Granted	22.3
Units, in Lieu of Dividends	0.5
Forfeited	-
<b>Issued and outstanding, end of period</b>	<b>22.8</b>

For the period from May 27, 2014 to December 31, 2014, the Company recorded compensation costs of \$0.7 million related to outstanding DSUs.

## 18. CAPITAL MANAGEMENT

The Company's objective when managing its capital structure, is to maintain financial flexibility in order to distribute cash to shareholders in the form of dividends after consideration of the Company's financial requirement for its business and future growth opportunities.

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 (Note 19), 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 Fee Lands and other royalty lands and the resultant royalty revenue, level of costs incurred by the Company and commodity prices.

	<b>As at December 31, 2014</b>	<b>As at December 31, 2013</b>
Shareholders' equity	\$ 964.0	\$ 0.1
Working capital	69.0	0.1

The Company's capital structure is managed through its financial and operating forecast process. The forecast of the Company's future cash flows is based on estimates of production, crude oil, natural gas and NGL prices, freehold mineral tax expense, administrative expenses 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.

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### A) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of cash and cash equivalents, accounts receivable and accrued revenues, accounts payable and accrued liabilities and dividends payable approximate their carrying amount due to the short-term maturity of those instruments. Refer to Note 13 for the fair value of the royalty note receivable.

### B) RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

#### Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in its 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.

As at December 31, 2014, the Company had no interest bearing liabilities. The Company's royalty note receivable (Note 13) bears interest at a fixed rate.

#### 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. A substantial portion of the Company's accounts receivable are from royalty agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

As at December 31, 2014, there were no counterparties whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenues is the total carrying value. For the periods presented, the Company did not have an allowance for doubtful accounts nor provide for any doubtful accounts.

#### Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting a demand to fund its financial liabilities as they come due. The Company manages its liquidity risk using cash and debt management programs. The Company has unused capacity under its Credit Facility, described below, for up to \$150 million.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of \$25.5 million and dividend payable of \$15.8 million is less than one year.

Concurrently with closing of the IPO, the Company entered into a \$75 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$125 million, and a \$25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Credit Facility"), with a syndicate of Canadian chartered banks.

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, LIBOR loans, bankers' acceptances and letters of credit, and will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured. The Revolving Facility and the Operating Facility will each be for three-year terms and, subject to certain requirements, will be extendible annually. As at December 31, 2014, the Credit Facility continues to remain undrawn.

## 20. SUPPLEMENTARY INFORMATION

### NET CHANGE IN NON-CASH WORKING CAPITAL

	For the period May 27, 2014 to December 31, 2014
Operating Activities	
Accounts receivable and accrued revenues	\$ (9.7)
Prepaid assets	(0.3)
Accounts payable and accrued liabilities	15.7
Income taxes payable	20.3
	<b>\$ 26.0</b>

### SUPPLEMENTARY CASH FLOW INFORMATION

	For the period May 27, 2014 to December 31, 2014
Interest Paid	\$ 0.2
Interest Received	0.7
Income Taxes Paid	-

## 21. COMMITMENTS

### Commitments

The following table outlines the Company's commitments as at December 31, 2014:

(\$ millions) (undiscounted)	Expected Future Payments					Total
	2015	2016	2017	2018	Thereafter	
Information technology	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ 0.1
Office leases	1.8	1.7	1.4	1.4	7.1	13.4
Commitments	<b>\$ 1.9</b>	<b>\$ 1.7</b>	<b>\$ 1.4</b>	<b>\$ 1.4</b>	<b>\$ 7.1</b>	<b>\$ 13.5</b>

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



## 22. RELATED PARTY TRANSACTIONS

### Transactions with Encana

Following the closing of the secondary public offering on September 26, 2014 (Note 16), PrairieSky and Encana are no longer related parties.

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

	For the period May 27, 2014 to September 30, 2014	
Royalties and lease rental revenues	\$	14.3
Office lease rental expense		0.3
	\$	14.0

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

### Transactions with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Certain directors of the Company were also directors of Encana.

The following table summarizes compensation expense related to officers and directors of the Company:

	For the period May 27, 2014 to December 31, 2014	
Salaries, bonuses, and other benefits	\$	1.5
Stock options		0.6
RSUs, PSUs, and DSUs		1.6
<b>Total Compensation</b>	\$	3.7

## BOARD OF DIRECTORS

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James M. Estey<sup>(1)(2)(3)(4)</sup>  
Andrew M. Phillips  
Sheldon B. Steeves<sup>(2)(3)(4)</sup>  
Margaret A. McKenzie<sup>(3)(4)</sup>  
Grant Zawalsky<sup>(2)(4)</sup>

- (1) Chair of the Board.
- (2) Member of the Governance and Compensation Committee. Mr. Estey is the Chair of the Governance and Compensation Committee.
- (3) Member of the Audit Committee. Ms. McKenzie is the Chair of the Audit Committee.
- (4) Member of the Reserves Committee. Mr. Steeves is the Chair of the Reserves Committee. Mr. Estey is an ex-officio non-voting member of the Reserves Committee.

## OFFICERS

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Andrew M. Phillips, President & Chief Executive Officer  
L. Geoffrey Barlow, Vice-President Finance & Chief Financial Officer  
Cameron M. Proctor, Chief Operating Officer  
Cristina T. Lopez, Vice-President Corporate Development  
Michelle L. Radomski, Vice-President, Land

## AUDITORS

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KPMG LLP

## BANKERS

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Toronto-Dominion Bank  
Royal Bank of Canada

## TORONTO STOCK EXCHANGE TRADING SYMBOL

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PSK

## INDEPENDENT RESERVE EVALUATORS

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GLJ Petroleum Consultants Ltd.

## TRANSFER AGENT

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TMX Equity Transfer Services

## ABBREVIATIONS

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bbls – barrels  
bbls/d – barrels per day  
boe – barrels of oil equivalent (6mcf = 1bbl)  
boe/d – barrels of oil equivalent per day  
mcf – thousand cubic feet  
mcf/d – thousand cubic feet per day  
mmcf – million cubic feet  
mmcf/d – million cubic feet per day  
NGLs – natural gas liquids  
WTI – West Texas Intermediate

## CORPORATE OFFICE

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## CONTACT US

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