



**NOTICE OF  
ANNUAL AND SPECIAL MEETING  
AND  
INFORMATION CIRCULAR AND PROXY STATEMENT**

For the Annual and Special Meeting of Shareholders  
to be held on Tuesday, April 28, 2015



## PRAIRIESKY ROYALTY LTD.

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON TUESDAY APRIL 28, 2015

The annual and special meeting (the "**Meeting**") of the shareholders of PrairieSky Royalty Ltd. ("**PrairieSky**" or the "**Company**") will be held in The Card Room (Harry Forester Room) at the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta T2P 0L5 on Tuesday, April 28, 2015 at 9:30 a.m. (MDT) to:

1. receive and consider the consolidated financial statements of the Company for the year ended December 31, 2014, together with the report of the auditors;
2. elect five (5) directors of the Company;
3. appoint the auditors and authorize the directors to fix their remuneration as such;
4. consider and, if thought advisable, approve an amendment to the articles of the Company to change the rights, privileges, restrictions and conditions in respect of the common shares of PrairieSky (the "**Common Shares**"), including changes to set forth the terms and conditions pursuant to which PrairieSky may issue Common Shares as payment of stock dividends declared on the Common Shares;
5. consider and, if thought advisable, approve the share unit incentive plan of the Company, as amended and restated; and
6. transact such other business as may properly be brought before the Meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the Meeting are set forth in the information circular and proxy statement accompanying this notice.

**Registered shareholders who are unable to attend the Meeting in person are requested to complete, date and sign the enclosed form of proxy and return it to TMX Equity Transfer Services Inc., Attention: Proxy Department, 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1, or deliver it by fax to 1-416-595-9593 at least 48 hours, excluding Saturdays, Sundays and holidays, before the meeting or any adjournment thereof.** Registered shareholders may also vote via the internet at [www.voteproxyonline.com](http://www.voteproxyonline.com). Votes by internet must be received by 9:30 a.m. (MDT) on Friday, April 24, 2015 or at least 48 hours prior to the time of any adjournment of the Meeting. See the information circular and proxy statement for further instructions on internet voting. If a shareholder receives more than one proxy form because such shareholder owns Common Shares registered in different names or addresses, each proxy form should be completed and returned.

Only shareholders of record at the close of business on March 20, 2015 will be entitled to vote at the Meeting, unless that shareholder has transferred any Common Shares subsequent to that date and the transferee shareholder, not later than 10 days before the Meeting, establishes ownership of such Common Shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the Meeting.

DATED at Calgary, Alberta this 20<sup>th</sup> day of March, 2015.

By order of the Board of Directors of  
PrairieSky Royalty Ltd.  
(signed) Cameron Proctor  
Corporate Secretary

## PRAIRIESKY ROYALTY LTD.

Information Circular and Proxy Statement  
for the Annual and Special Meeting to be held on Tuesday, April 28, 2015

### PROXIES

#### Solicitation of Proxies

This information circular and proxy statement is furnished in connection with the solicitation of proxies for use at the annual and special meeting (the "**Meeting**") of the shareholders of PrairieSky Royalty Ltd. ("**PrairieSky**" or the "**Company**") to be held on Tuesday April 28, 2015 at 9:30 a.m. (MDT), in The Card Room (Harry Forester Room) at the Calgary Petroleum Club, 319 Fifth Avenue S.W., Calgary, Alberta T2P 0L5 and at any adjournment thereof. Forms of proxy must be addressed to and received by TMX Equity Transfer Services Inc. at Attention: Proxy Department, 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1 or by fax to 1-416-595-9593 not less than 48 hours (Saturdays, Sundays and holidays excepted) before the time for holding the Meeting or any adjournment or postponement thereof. Registered shareholders may also use the internet at [www.voteproxyonline.com](http://www.voteproxyonline.com) to vote their Common Shares. Shareholders will be prompted to enter the control number which is located on the form of proxy. Votes by internet must be received by 9:30 a.m. (MDT) on April 24, 2015 or at least 48 hours prior to the time of any adjournment or postponement of the Meeting. The website may also be used to appoint a proxy holder to attend and vote at the Meeting on the shareholder's behalf and to convey a shareholder's voting instructions.

Only shareholders of record at the close of business on March 20, 2015 will be entitled to vote at the Meeting, unless that shareholder has transferred any common shares of PrairieSky ("**Common Shares**") subsequent to that date and the transferee shareholder, not later than 10 days before the Meeting, establishes ownership of such Common Shares and demands that the transferee's name be included on the list of shareholders entitled to vote at the Meeting.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a Company, by a duly authorized officer or attorney of the Company.

The persons named in the enclosed form of proxy are our officers. **As a shareholder, you have the right to appoint a person or company, who need not be a shareholder, to represent you at the Meeting.** To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy.

#### Advice to Beneficial Holders of Common Shares

The information set forth in this section is of significant importance to you if you do not hold your Common Shares in your own name. Only proxies deposited by shareholders whose names appear on the records of the Company as the registered holders of such Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in your account statement provided by your broker, then in almost all cases those Common Shares will not be registered in your name on PrairieSky's records. Such Common Shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of shares are registered under the name of CDS & Co., the registration name for CDS Clearing and Depository Services Inc. ("**CDS**"), which acts as nominee for many Canadian brokerage firms. Common Shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your Common Shares. The Company does not know for whose benefit the Common Shares registered in the name of CDS & Co. are held. The majority of shares held in the United States are registered in the name

of Cede & Co., the nominee for The Depository Trust Company ("**DTC**"), which is the United States equivalent of CDS.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your Common Shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Investor Communications, Canada, which mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternatively, you can call their toll-free telephone number or access the internet to vote your Common Shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of such Common Shares to be represented at the Meeting. If you receive a voting instruction form from Broadridge Investor Communications, Canada it cannot be used as a proxy to vote Common Shares directly at the Meeting as the proxy must be returned to them well in advance of the Meeting in order to have the Common Shares voted.

Although you may not be recognized directly at the Meeting for the purposes of voting Common Shares registered in the name of your broker, you may attend the Meeting as a proxyholder for the registered holder and vote your Common Shares in that capacity. If you wish to attend the Meeting and vote your Common Shares, you must do so as proxyholder for the registered holder. To do this, you should enter your own name in the blank space on the form of proxy provided to you and return the document to your broker or the agent of such broker in accordance with the instructions provided by such broker well in advance of the Meeting.

#### Notice-and-Access and Other Matters

The Company is not using "notice-and-access" to send its proxy-related materials to shareholders, and paper copies of such materials will be sent to all shareholders, including beneficial shareholders. The Company will be delivering proxy-related materials to non-objecting beneficial shareholders with the assistance of Broadridge Investor Communications, Canada and the non-objecting beneficial shareholder's intermediary and intends to pay for the costs of an intermediary to deliver proxy-related materials to objecting beneficial shareholders.

#### Revocability of Proxy

You may revoke your proxy at any time prior to a vote. If you or the person you give your proxy to attend personally at the Meeting, you or such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a company, under your corporate seal or by a duly authorized officer or attorney of the company. To be effective, the instrument in writing must be deposited either at the head office of the Company at any time up to and including the last business day before the day of the Meeting, or any adjournment or postponement thereof, at which the proxy is to be used, or with the chairman of the Meeting on the day of the Meeting, or any adjournment or postponement thereof.

#### Persons Making the Solicitation

**This solicitation is made on behalf of the Company's management.** PrairieSky will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual and special meeting and this information circular and proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by the Company's directors, officers and employees who will not be remunerated therefor.

## Exercise of Discretion by Proxy

The Common Shares represented by proxy in favour of management nominees will be voted on every matter at the Meeting. Where you specify a choice with respect to any matter to be acted upon, the Common Shares will be voted or withheld from voting on any matter in accordance with the specification so made. If you do not provide instructions, your Common Shares will be voted in favour of the matters to be acted upon as set out herein. The persons appointed under the form of proxy are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual and special meeting and with respect to any other matters which may properly be brought before the Meeting or any adjournment or postponement thereof. At the time of printing this information circular and proxy statement, the Company knows of no such amendment, variation or other matter.

## VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

PrairieSky is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As at March 20, 2015, there were 149,333,151 Common Shares and no preferred shares issued and outstanding. As a holder of Common Shares you are entitled to one vote for each Common Share owned.

Other than as set forth below, to the knowledge of the Company's directors and officers, as at March 20, 2015, no person or company beneficially owned or controlled, directly or indirectly, Common Shares entitled to more than 10% of the votes which may be cast at the Meeting.

Registered Holder	Number of Common Shares	Percentage of Issued and Outstanding
Fidelity <sup>(1)(2)</sup>	19,500,000	13.1%

Notes:

- (1) Fidelity includes the following entities: Fidelity Management & Research Company, Pyramis Global Advisors, LLC, Pyramis Global Advisors Trust Company, Strategic Advisors Incorporated, FIL Limited and certain of its affiliates, Crosby Advisors LLC and Fidelity SelectCo, LLC.
- (2) Information is based solely on filings on the Company's profile at [www.sedar.com](http://www.sedar.com).

As at March 20, 2015, PrairieSky's directors and officers, as a group, beneficially owned, directly or indirectly, or exercised control over 2,420,289 Common Shares or approximately 1.6% of the issued and outstanding Common Shares.

## MATTERS TO BE ACTED UPON AT THE MEETING

### 1. Election of Directors

The board of directors of PrairieSky (the "**Board**") has fixed the number of directors at five (5) members. Management is soliciting proxies, in the accompanying form of proxy, for an ordinary resolution in favour of the election as directors of the five (5) nominees set forth below:

James M. Estey	Sheldon B. Steeves
Margaret A. McKenzie	Grant A. Zawalsky
Andrew M. Phillips	

In the event that a vacancy among such nominees occurs because of death or for any reason prior to the Meeting, the proxy shall not be voted with respect to such vacancy.


### Voting for Election of Directors


The election of the directors will be conducted by voting on each director individually. The individual voting results will be published by news release and on [www.sedar.com](http://www.sedar.com) after the Meeting.


The Board has adopted a majority voting policy, which provides that if a nominee for election as a director receives a greater number of votes "withheld" than votes "for" at an uncontested meeting of the shareholders of the Company, such nominee shall offer his or her resignation as a director to the Board promptly following the meeting of shareholders at which the director was elected. Upon receiving such offer of resignation, the Governance and Compensation Committee will consider such offer and make a recommendation to the Board whether to accept it or not. In the absence of special circumstances, it is expected that the Board will accept the resignation consistent with an orderly transition. The director will not participate in any Governance and Compensation Committee or Board deliberations on the resignation offer. It is anticipated that the Board will make its decision to accept or reject the resignation within 90 days.

### Biographies of the Directors


The following information relating to the director nominees is based partly on the Company's records and partly on information received by PrairieSky from the nominees and sets forth the names, ages and cities of residence of the proposed nominees, their committee memberships, the date on which each became a director of the Company, their present occupations and brief biographies of such persons and the number of Common Shares owned, controlled or directed by each and the number of deferred share units ("DSUs") granted under the deferred share unit plan for directors held as at March 20, 2015.


Nominee for Election as Director	Age	Director Since	Common Shares Owned, Controlled or Directed <sup>(1)</sup>	DSUs
<p><b>James M. Estey</b> Calgary, Alberta</p>  <p>Chairman of the Board</p> <p>Member of:</p> <ul style="list-style-type: none"> <li>- Governance and Compensation Committee (Chair)</li> <li>- Audit Committee</li> </ul>	62	April 11, 2014	1,394,877	14,318
<p>Mr. Estey's principal occupation is as a Corporate Director. Mr. Estey is the retired Chairman of UBS Securities Canada Inc., a financial services company, and has more than 30 years of experience in financial markets. Mr. Estey joined Alfred Bunting and Company as an institutional equity salesperson in 1980 after working at A.E. Ames &amp; Co. for seven years. In 1994, Mr. Estey became the head of the Canadian Equities business, and in 2002 Mr. Estey was appointed President &amp; Chief Executive Officer of UBS Securities Canada Inc. In January 2008, Mr. Estey assumed the role of Chairman of UBS Securities Canada Inc.</p> <p>Mr. Estey is a director and Chairman of Gibson Energy Inc., a Toronto Stock Exchange ("TSX") listed oil and natural gas company, and the lead director of New Gold Inc., a mining company listed on the TSX and the New York Stock Exchange ("NYSE"). Mr. Estey also serves on the Advisory Board of the Edwards School of Business.</p>				

Nominee for Election as Director	Age	Director Since	Common Shares Owned, Controlled or Directed <sup>(1)</sup>	DSUs
<b>Margaret A. McKenzie</b> Calgary, Alberta  Member of: - Audit Committee (Chair) - Reserves Committee	53	December 19, 2014	312,720	3,247
			<p>Ms. McKenzie was formerly the Vice President, Finance and Chief Financial Officer of Range Royalty Limited Partnership and prior thereto was Vice President, Finance and Chief Financial Officer of Profico Energy Management Ltd. (a private oil and natural gas company). Ms. McKenzie holds a Bachelor of Commerce degree (with distinction) from the University of Saskatchewan and has been a member of the Institute of Chartered Accountants of Alberta since 1985. She obtained her ICD.D designation from the Institute of Corporate Directors in 2013.</p> <p>Ms. McKenzie is an experienced director and currently sits as a director of two private energy companies, Bonavista Energy Company, a TSX listed oil and natural gas company and Encana Corporation, a TSX and NYSE listed oil and natural gas company.</p>	

Nominee for Election as Director	Age	Director Since	Common Shares Owned, Controlled or Directed <sup>(1)</sup>	DSUs
<b>Andrew M. Phillips</b> Calgary, Alberta  President and Chief Executive Officer	37	April 11, 2014	503,773	--- <sup>(2)</sup>
			<p>Mr. Phillips is the President and Chief Executive Officer of the Company and has over 15 years of experience in the oil and natural gas industry in the areas of exploration, geology, business development, asset evaluation and executive management.</p> <p>Prior to his appointment as President and Chief Executive Officer of the Company, Mr. Phillips was the President and Chief Executive Officer and a director of Home Quarter Resources Ltd. ("<b>Home Quarter</b>"), a private oil and natural gas company founded by Mr. Phillips in 2010 with producing properties and royalty interests in southwest Saskatchewan and Alberta. Home Quarter was successfully divested to a public oil and natural gas company by Mr. Phillips in 2014. Prior thereto, Mr. Phillips was the Vice President, Exploration at Evolve Exploration Ltd., a private junior oil and natural gas company with assets in western Canada, and an Exploration Geologist at Profico Energy Management Ltd. and at Renaissance Energy Ltd., both of which were Canadian oil and natural gas exploration companies.</p> <p>Mr. Phillips holds a Bachelor of Science, Geology degree from the University of Calgary and is a member of the Association of Professional Engineers and Geoscientists of Alberta.</p>	



Nominee for Election as Director	Age	Director Since	Common Shares Owned, Controlled or Directed <sup>(1)</sup>	DSUs
<b>Sheldon B. Steeves</b> Calgary, Alberta 	61	April 11, 2014	35,714	9,545
Member of: - Reserves Committee (Chair) - Governance and Compensation Committee - Audit Committee	<p>Mr. Steeves' principal occupation is as a Corporate Director. Mr. Steeves is a director of Enerplus Company and NuVista Energy Ltd., each of which is an oil and natural gas company listed on the TSX. From January 2001 until April 2012, Mr. Steeves was Chairman and Chief Executive Officer of Echoex Ltd., a private junior oil and natural gas company, and spent over 15 years at Renaissance Energy Ltd., a Canadian oil and natural gas exploration company, where he was appointed Chief Operating Officer &amp; Executive Vice President in 1997.</p> <p>Mr. Steeves holds a Bachelor of Science degree in Geology from the University of Calgary and is a member of the Association of Professional Engineers and Geoscientists of Alberta, the Canadian Society of Petroleum Geologists and the American Association of Petroleum Geologists.</p>			

Nominee for Election as Director	Age	Director Since	Common Shares Owned, Controlled or Directed <sup>(1)</sup>	DSUs
<b>Grant A. Zawalsky</b> Calgary, Alberta 	55	December 19, 2014	104,172	4,221
Member of: - Governance and Compensation Committee - Reserves Committee	<p>Mr. Zawalsky is the Managing Partner of Burnet, Duckworth &amp; Palmer LLP (Barristers and Solicitors) where he has been a partner since 1994. Mr. Zawalsky holds a B.Comm and LL.B. from the University of Alberta and is a member of the Law Society of Alberta.</p> <p>Mr. Zawalsky is an experienced director and currently sits on the board of directors of a number of private and public companies, including Whitecap Resources Inc., NuVista Energy Ltd. and Zargon Oil &amp; Gas Ltd., each of which is a TSX listed company.</p>			

## Notes:

- (1) The information as to Common Shares beneficially owned, directly or indirectly, is based upon information furnished to PrairieSky by the nominees.
- (2) Mr. Phillips received grants of an aggregate of 10,714 RSUs, 21,249 PSUs and 340,909 Options (each as defined herein) in his capacity as an officer of the Company during the year ended December 31, 2014.

### Additional Disclosure Relating to Proposed Directors

None of the proposed directors (nor any personal holding company of any of such persons) is, as of the date hereof, or was within ten years before the date hereof, a director, chief executive officer or chief financial officer of any company (including us), that was subject to a cease trade order (including a management cease trade order), an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, in each case that was in effect for a period of more than 30 consecutive days (collectively, an "**Order**") that was issued while the director was acting in the capacity as director, chief executive officer or chief financial officer; or was subject to an Order that was issued after the director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

None of the proposed directors (nor any personal holding company of any of such persons) is, as of the date hereof, or has been within the ten years before the date hereof, a director or executive officer of any company (including us) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, other than Mr. Zawalsky who was formerly a director of Efficient Energy Resources Ltd. (a private electrical generation company) which agreed to the voluntary appointment of a receiver in 2005.

None of the proposed directors (nor any personal holding company of any of such persons) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## 2. Appointment of Auditors

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of KPMG LLP, Chartered Accountants, as auditors of the Company, to hold office until the next annual meeting of shareholders and to authorize the Board to fix their remuneration as such. KPMG LLP has been the Company's auditor since November 2014 when they were appointed by the Board following the requested resignation of PrairieSky's previous auditors, PricewaterhouseCoopers LLP. See Appendix "A" to this information circular and proxy statement for a copy of the "reporting package" filed on SEDAR in accordance with National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**") in connection with the change in PrairieSky's auditors. There were no "reportable events" within the meaning of NI 51-102.

## 3. Approval of Share Capital Amendment to Implement Stock Dividend Program

At the Meeting, shareholders will be asked to vote on a special resolution to amend the Company's articles to change the rights, privileges, restrictions and conditions in respect of the Common Shares, including to set forth the terms and conditions pursuant to which PrairieSky may issue Common Shares as payment of all or any portion of dividends declared on the Common Shares (referred to herein as "**stock dividends**") for those shareholders who elect to receive stock dividends instead of cash dividends. A copy of the proposed terms of the Common Shares after giving effect to the amendment is attached hereto as Appendix "B".

### *Reasons for the Share Capital Amendment*

PrairieSky is proposing to implement a stock dividend program that would generally be available to most shareholders. **We will permit shareholders that are resident in the United States or "US persons" as defined in Regulation S adopted under the Securities Act of 1933, as amended, to participate in the stock dividend program provided that the shareholder is not a resident in the state of California or any other state where the issuance of securities under the stock dividend program would not qualify for a self-executing exemption or exclusion from registration under the securities laws of the applicable state.**

While the stock dividend program is similar to other dividend reinvestment plans (including the recently implemented dividend reinvestment plan of the Company), PrairieSky believes that the stock dividend program has certain income tax attributes that make it more attractive to both Canadian and non-Canadian shareholders that hold their Common Shares in taxable accounts, while there would be effectively no impact on shareholders holding Common Shares in tax-deferred accounts. Participation in the stock dividend program will be optional; shareholders will continue to receive dividends as declared by the Board in the form of cash, unless they elect to receive stock dividends. Furthermore, the Board may discontinue the declaration and payment of stock dividends at any time, in which case shareholders

would receive dividends as declared by the Board in the form of cash (referred to herein as "**cash dividends**").

Accordingly, the Company is proposing an amendment to its articles to clarify its ability to issue, and to set forth the terms and conditions pursuant to which shareholders may elect to receive, stock dividends on their Common Shares while not prejudicing shareholders who desire to receive cash dividends. The stock dividend program will allow shareholders to accumulate additional Common Shares issued from treasury at an effective 1% discount to the market price of the Common Shares on, in certain cases, a more income tax-efficient basis as compared to other dividend reinvestment plans, all as described in more detail below.

The stock dividend program will serve as a source of capital for PrairieSky by allowing it to retain cash that would otherwise be paid out as dividends. This balance of cash flow retention and maintaining a regular dividend is intended to support long-term value creation and allow the Company to retain funds to support its opportunistic acquisition initiatives. Subject to approval of the special resolution, it is anticipated that the Board will declare the first stock dividend to be paid on June 15, 2015 to shareholders of record on May 29, 2015.

**The approval of the special resolution and adoption of the stock dividend program will not prevent shareholders from continuing to receive dividends, when declared by the Board, in the form of cash. Participation by shareholders in the proposed stock dividend program and the election to receive stock dividends is completely voluntary and shareholders are not required to participate in the stock dividend program. If a shareholder wishes to receive dividends declared by the Company in the form of cash, no action is required to be taken by a shareholder. Only shareholders who validly elect to participate in the stock dividend program, as described below, will receive stock dividends.**

#### *Benefits of the Stock Dividend Program*

Under the proposed stock dividend program, there is no cash dividend that is subsequently reinvested; instead, the dividend is paid directly in Common Shares. As discussed under the heading "*Canadian Federal Income Tax Considerations*" in Appendix "C" to this information circular and proxy statement, the amount or value of a stock dividend for the purposes of computing a shareholder's Canadian tax liability is not the market value of the Common Shares being issued in satisfaction of the dividend but instead is the amount that the directors of the Company choose to add to the stated capital account of PrairieSky as a result of the payment of the stock dividend.

It is anticipated that the directors of the Company will add only a nominal amount to stated capital when a stock dividend is paid under the stock dividend program. As a result, taxable shareholders resident in Canada who hold their Common Shares as capital property are not expected to have any material amounts included in their income as a result of the receipt of the stock dividends. However, because no amount is being reinvested and no portion of the stock dividend is being included in a shareholder's income, a shareholder who receives a stock dividend will be deemed to have no initial tax cost in the Common Shares comprising the stock dividend. As a result, the shareholder may realize a larger capital gain when the shareholder sells the Common Shares in the future. In essence, the immediate dividend income inclusion is not recognized under the stock dividend program but is converted to a future capital gain. This provides shareholders with a tax deferral opportunity and an opportunity to utilize any capital losses the shareholder may have available to shelter these future capital gains. In addition, since the taxation rates applicable to dividends generally differ from those applicable to capital gains, shareholders participating in the stock dividend program may benefit from these rate discrepancies. However shareholders should consult their own tax advisors with respect to the tax implications of the stock dividend program to their particular circumstances.

For eligible shareholders who are not residents of Canada, the anticipated nominal amount of the stock dividend for Canadian tax purposes is expected to eliminate any Canadian withholding tax exposure in

respect of stock dividends. This means that the number of Common Shares received under the stock dividend program should reflect the entire amount of the stock dividend rather than the net amount of the cash dividend that would remain after the payment of any applicable Canadian withholding tax on a reinvested cash dividend under the dividend reinvestment plan. As discussed in more detail in Appendix "C" to this information circular and proxy statement, most shareholders that are not residents of Canada will not be subject to Canadian taxation on any capital gains associated with a disposition of Common Shares. Accordingly, the fact that Common Shares received in satisfaction of a stock dividend will have no initial tax cost for Canadian purposes is not expected to have any adverse Canadian tax consequence for such non-resident shareholders.

**All shareholders, wherever resident, are encouraged to consult their own tax advisors regarding the tax consequences to them of receiving cash or stock dividends.**

**The approval of the special resolution and adoption by PrairieSky of the stock dividend program should not be construed as a guarantee that future dividends will continue to be paid by the Company or as to the amount of future dividend payments. The Board continually evaluates the dividend policy and any decision to pay dividends on the Common Shares will be made by the board on the basis of the relevant conditions existing at the applicable time. Furthermore, the declaration and payment of stock dividends is solely within the discretion of the Board and there can be no assurance that the Company will declare stock dividends or otherwise continue the stock dividend program in the future.** See also "Cautionary Statement Regarding Forward-Looking Statements" at the end of this information circular and proxy statement.

Outlined below is a description of the key terms of the proposed stock dividend program and how shareholders may elect to participate in the stock dividend program, provided the special resolution is approved and the Board declares stock dividends in respect of the Common Shares.

#### *Payment of Stock Dividends*

The proposed amendments to the Company's articles will provide the Board with the flexibility, where a shareholder has validly elected to receive payment of dividends in the form of Common Shares in the manner set forth below, to declare and pay dividends on the Common Shares through the issuance of Common Shares. To facilitate payment of such stock dividends, the amended share terms also implement procedures for: (i) a shareholder to elect to accept stock dividends; (ii) determining the value and number of Common Shares to be distributed by way of a stock dividend; (iii) accounting for the entitlement of shareholders to fractional Common Shares resulting from stock dividends; (iv) authorizing the sale of Common Shares issued in respect of stock dividends to satisfy tax withholding obligations or to comply with foreign laws or regulations applicable to a shareholder, if required; and (v) payment of cash in respect of fractional Common Shares upon a person ceasing to be a registered shareholder.

Dividends would be declared in an amount expressed in dollars per Common Share and, for shareholders who confirm that they are willing to receive dividend payments in Common Shares, would be paid by way of the issuance of a fraction of a Common Share ("**stock dividend share**") per outstanding Common Share determined by dividing the dollar amount of the dividend per Common Share by 99% of the "volume weighted average trading price" (as defined below) of the Common Shares on the Toronto Stock Exchange (the "**TSX**"). The "volume weighted average trading price" of the Common Shares would be calculated by dividing the total value of Common Shares traded on the TSX by the total volume of Common Shares traded on the TSX over the five trading day period immediately prior to the payment date of the applicable dividend. The result of the foregoing is that shareholders who elect to receive stock dividends will receive additional Common Shares at a 1% discount to the market price, which is effectively identical to the price at which Common Shares will be issued from treasury to Canadian-resident shareholders under our recently implemented dividend reinvestment plan, and may benefit from certain tax efficiencies as described above.

The stock dividends would be paid by way of the issuance of a stock dividend share only to registered shareholders who have delivered to PrairieSky's transfer agent, Equity Financial Trust Company, on or before a date specified by the Board (currently being the fifth business day prior to a dividend record date), an enrolment form (a "**Stock Dividend Enrolment Form**") confirming that they will accept the stock dividend share as payment of the dividend on all or a portion of their Common Shares entitled to receive the applicable dividend. Beneficial shareholders who hold their Common Shares through a broker, investment dealer, financial institution or other nominee may participate in the stock dividend program through such nominee.

Shareholders who do not elect to receive stock dividends will continue to receive cash dividends as declared by the Board, in the usual manner. Therefore, if a registered shareholder does not deliver a Stock Dividend Enrolment Form by the fifth business day prior to a dividend record date, or delivers a Stock Dividend Enrolment Form confirming that the holder accepts the stock dividend share as payment of the dividend on some but not all of the holder's Common Shares, the dividend on Common Shares for which no Stock Dividend Enrolment Form was delivered, or the dividend on those of the holder's Common Shares in respect of which the holder did not deliver a Stock Dividend Enrolment Form, will be paid in cash in the usual manner. See "*Procedure to Confirm Acceptance of Stock Dividends*" below for additional information.

To the extent that any accumulated stock dividends paid on the Common Shares represent one or more whole Common Shares payable to a registered holder of Common Shares that has confirmed that it will accept payment in Common Shares (a "**participating shareholder**"), such whole Common Shares will be registered in the name of such holder. For greater clarity, the term "participating shareholder" only refers to registered shareholders (i.e. shareholders who hold a physical share certificate in their own name evidencing registered ownership of Common Shares) and not to beneficial holders who hold their Common Shares through a broker, investment dealer, financial institution or other nominee.

#### *Procedure to Confirm Acceptance of Stock Dividends*

Registered and beneficial shareholders must take the steps outlined below in order to enroll in the stock dividend program and elect to receive stock dividends declared by the Company rather than receive dividends in the form of cash. **If a shareholder desires to receive dividends in the form of cash, no action is required to be taken by such a shareholder.**

##### *Registered shareholders*

Registered shareholders that are willing to accept the payment of future dividends declared by the Board in the form of Common Shares are required to complete and deliver to Equity Financial Trust Company a Stock Dividend Enrolment Form in a form prescribed by Equity Financial Trust Company at least five business days prior to the record date of a declared dividend. The Stock Dividend Enrolment Form will permit such shareholders to confirm that they will accept the stock dividend share as payment of the dividend on all or a stated number of their Common Shares entitled to receive such dividend. A Stock Dividend Enrolment Form will remain in effect for all dividends declared on the Common Shares to which it relates and which are held by the registered shareholder, unless the shareholder delivers a termination notice to Equity Financial Trust Company, in which case the Stock Dividend Enrolment Form will not be effective for any dividends having a record date that is more than five business days following receipt of the termination notice by Equity Financial Trust Company. A Stock Dividend Enrolment Form or a termination notice may only be delivered to Equity Financial Trust Company in respect of Common Shares for which trades have settled prior to the applicable deadline for notice.

**Accordingly, if the special resolution is approved at the Meeting, registered shareholders who desire to receive payment in the form of Common Shares in respect of the dividend expected to be declared by us having a record date of May 29, 2015 and a payment date of June 15, 2015 must return a Stock Dividend Enrolment Form to Equity Financial Trust Company by no later than May 22, 2015.** A copy of the Stock Dividend Enrolment Form may be obtained from Equity Financial Trust

Company at [www.tmxequityinvestorservices.com](http://www.tmxequityinvestorservices.com). The completed Stock Dividend Enrolment Form must be returned to Equity Financial Trust Company at 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1.

Notwithstanding the foregoing, CDS, DTC and other similar depositories, as registered shareholders, may participate in the stock dividend program and elect to receive stock dividends on behalf of beneficial shareholders who hold Common Shares through their brokers and the respective depository services by communicating appropriate election and enrollment instructions to Equity Financial Trust Company in accordance with standard and customary industry practices.

### *Beneficial Shareholders*

Beneficial owners of Common Shares held through brokers, investment dealers, financial institutions or other nominees and which are registered in the name of depositories such as CDS in Canada and DTC in the United States, or another nominee, may not directly confirm their acceptance of stock dividends in respect of those Common Shares with Equity Financial Trust Company, but must instead either: (i) make appropriate arrangements with the broker, investment dealer, financial institution or other nominee who holds their Common Shares to confirm acceptance of stock dividends on their behalf, either as a nominee that delivers a completed and executed Stock Dividend Enrolment Form to Equity Financial Trust Company or, if applicable, as a CDS or DTC participant by providing the appropriate instructions to CDS or DTC, as applicable, within the timeframes required by such depositories; or (ii) transfer the Common Shares such that they are registered in their own name and then confirm acceptance of stock dividends in respect of such Common Shares directly.

Beneficial owners of Common Shares should contact the broker, investment dealer, financial institution or other nominee who holds their Common Shares to provide instructions regarding their acceptance of stock dividends and to inquire about any applicable deadlines that the nominee may impose or be subject to. By confirming their willingness to receive stock dividends and enrolling in the stock dividend program, a beneficial holder (or where such confirmation or enrollment is made by a nominee on behalf of a beneficial shareholder, the applicable nominee) will be deemed to represent and warrant to us and Equity Financial Trust Company that the beneficial shareholder has made such confirmation, election and enrollment prior to the record date for the relevant stock dividend.

### *Fractional Entitlements*

Fractional Common Shares, which might otherwise have been payable to participating shareholders by reason of a stock dividend, will be issued to Equity Financial Trust Company as the agent of such shareholders. Equity Financial Trust Company will credit to an account for each participating shareholder all fractions of a Common Share amounting to less than one whole Common Share issued by PrairieSky to a participating shareholder by way of stock dividends. From time to time, when the fractional interests in a Common Share held by Equity Financial Trust Company for the account of a participating shareholder are equal to or exceed in the aggregate one additional whole Common Share, Equity Financial Trust Company will cause an additional whole Common Share to be registered in the name of the participating shareholder. The crediting of fractional Common Shares (or payment of cash in lieu of fractional Common Shares) to beneficial owners who receive stock dividends on Common Shares held through a broker, investment dealer, financial institution or other nominee will depend on the policies of that broker, investment dealer, financial institution or other nominee.

A shareholder that ceases to be a registered holder of one or more Common Shares is entitled to receive payment in cash equal to the value of the fractional Common Share held by Equity Financial Trust Company for the account of the shareholder. The value of the fractional Common Share would be calculated by reference to the value assigned to the Common Shares for purposes of the last stock dividend paid by us prior to the date of payment to the former registered shareholder.

### *Authority to Sell Stock Dividend Shares*

The Company has the right to sell, or require Equity Financial Trust Company to sell, all or any part of the stock dividend shares, through the facilities of the TSX or other stock exchange on which the Common Shares are listed for trading if: (i) the Company has reason to believe that tax should be withheld and remitted to a taxation authority in respect of any stock dividend paid or payable to a shareholder in Common Shares, in which case PrairieSky would or would cause Equity Financial Trust Company to pay the sale proceeds to such taxation authority for the purposes of remitting the applicable tax, with any balance not remitted in payment of tax being payable to the shareholder; or (ii) the Company has reason to believe that the payment of a stock dividend in Common Shares to any holder thereof who is resident in or otherwise subject to the laws of a jurisdiction outside Canada might contravene the laws or regulations of such jurisdiction, or could subject us to any penalty or any legal or regulatory requirements not otherwise applicable to the Company, in which case the cash sale proceeds would be delivered to the shareholder.

### *Taxation of Stock Dividends*

Participation in the stock dividend program will have income tax consequences to shareholders who receive stock dividends that are different from the income tax consequences applicable to cash dividends. Please refer to Appendix "C" to this information circular and proxy statement for a summary of certain Canadian federal income tax considerations. **The United States tax consequences for shareholders who are resident in, or citizens of, the United States are not described herein. All shareholders should consult their own tax advisors for advice with respect to the tax consequences of participation in the stock dividend program based on their particular circumstances.**

### *Reporting and Entitlement to Common Share Certificates*

An account will be maintained by Equity Financial Trust Company for each participating shareholder. Each participating shareholder's account will include information with respect to the number of whole and fractional Common Shares registered or held in the name of the participating shareholder on the record date for the stock dividend, as well as the number of additional whole and fractional stock dividend shares to which the participating shareholder has become entitled by reason of the stock dividend. An unaudited statement regarding each participating shareholder's account will be mailed for each stock dividend payment to each participating shareholder. Beneficial shareholders will continue to receive reports with respect to their holdings of Common Shares and receipt of stock dividends from the broker, investment dealer, financial institution or other nominee through whom their Common Shares are held. A certificate representing the number of whole stock dividend shares registered in the name of a participating shareholder as a result of a stock dividend will only be provided upon request in writing to Equity Financial Trust Company.

### *Text of Resolution*

To be effective, the special resolution to amend the Company's articles to give effect to the proposed amendments to its share capital and to allow it to implement the stock dividend program must be passed by a majority of not less than two-thirds of the votes cast thereon by the shareholders represented in person or by proxy at the Meeting. **The Board unanimously recommends that shareholders vote in favour of the special resolution.** The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote **FOR** the special resolution. The text of the special resolution is set out below.

**"BE IT RESOLVED** as a special resolution of the holders of common shares of PrairieSky Royalty Ltd. (the "**Company**") that:

1. Pursuant to section 173 of the *Business Corporations Act* (Alberta) (the "**Act**"), the articles of the Company be amended to

change the rights, privileges, restrictions and conditions in respect of the common shares, substantially in the form set forth in Appendix "B" to the Company's information circular and proxy statement dated March 20, 2015;

2. any one of the directors or officers of the Company is hereby authorized to sign all such documents, including without limitation, Articles of Amendment, and to do all such acts and things, including without limitation, delivering such Articles of Amendment to the Registrar of Corporations under the Act, as such director or officer determines, in his or her discretion, to be necessary or advisable in order to properly implement and give effect to the foregoing; and
3. the directors of the Company may, in their discretion, without further approval of the shareholders of the Company, revoke this special resolution at any time prior to the filing of Articles of Amendment giving effect to the foregoing."

#### 4. Approval of Amendments to the Incentive Plan

On May 29, 2014, in connection with the completion of the Initial Public Offering (as defined herein), the Company established a share unit incentive plan (the "**Incentive Plan**") providing for the grant of share unit awards (as defined herein) to eligible persons. The Incentive Plan currently provides for all share unit awards to be settled in cash and, as a result, is not a security based compensation arrangement requiring shareholder approval pursuant to the rules of the TSX. See "Executive Compensation – Incentive Award Programs – Incentive Plan" for a full description of the current Incentive Plan.

The Board has approved certain amendments to the Incentive Plan which will result in the Incentive Plan, as amended and restated, (referred to herein as the "**Amended Incentive Plan**") being a security based compensation arrangement pursuant to the rules of the TSX and requiring the approval of shareholders of the Company. As a result, at the Meeting, shareholders will be asked to vote on an ordinary resolution to approve the Amended Incentive Plan. The amendments to the Incentive Plan include a provision for the Company to make an election to settle vested share unit awards with either: (i) a cash payment equal to the five day weighted average trading price for the Common Shares multiplied by the number of Common Shares underlying the share unit awards; or (ii) the issuance of the number of Common Shares underlying the share unit awards, in each case subject to adjustments for dividends and other corporate actions.

With the addition of the provisions allowing for the issuance of Common Shares as settlement for vested share unit awards, the Amended Incentive Plan will contain limits on the number of Common Shares that may be issued to participants under the Amended Incentive Plan during specified periods of time. In particular: (i) the maximum number of Common Shares that may be issued to any one individual participant under the Amended Incentive Plan may not exceed 5% of the issued and outstanding Common Shares as of the date of the grant of the share unit award, less the aggregate number of Common Shares reserved for issuance under any of the Company's other security based compensation arrangements (the "**Individual Limit**"); and (ii) the maximum number of Common Shares that may be issued to "Insiders" (as defined in the *Securities Act* (Alberta)) as a whole may not exceed 10% of the issued and outstanding Common Shares as of the date of the grant of the share unit award, less the aggregate number of Common Shares reserved for issuance under any of the Company's other security based compensation arrangements (the "**Aggregate Insider Limit**"). The maximum number of Common Shares that may be issued to Insiders as a whole under the Amended Incentive Plan within a one year period shall be the Aggregate Insider Limit, excluding Common Shares issued to Insiders as a whole under the Amended Incentive Plan or any other security based compensation arrangement over the preceding one year period. The maximum number of Common Shares that may be issued to any one



Insider under the Amended Incentive Plan and any other security based compensation arrangement within a one year period shall be the Individual Limit, excluding Common Shares issued to such Insider under the Amended Incentive Plan or any other security based compensation arrangement over the preceding one year period.

The Amended Incentive Plan also provides that the aggregate number of Common Shares reserved for issuance under the Amended Incentive Plan (together with any Common Shares reserved for issuance under the Company's other security based compensation arrangements) shall not exceed 10% of the issued and outstanding Common Shares.

Further, the Amended Incentive Plan provides for the extension of the payment date of a share unit award, where the payment date for such award occurs during, or within 10 business days of the end of a Company-imposed trading blackout applicable to the relevant participant. In such cases, the payment date shall be extended to the 10<sup>th</sup> business day after the expiry of the blackout period provided that in any case; such payment date cannot be later than December 31 in the third calendar year after which such share unit award was granted (the "**Outside Date**"). Where the Outside Date of share unit awards occurs during the trading blackout, payment of such awards will be made in cash.

Pursuant to the terms of the Amended Incentive Plan, the Board may, at any time, without the approval of the shareholders suspend, discontinue or amend the Amended Incentive Plan or a share unit award made thereunder, provided that the Board may not, without the approval of the holders of a majority of Common Shares and other voting securities of the Company present and voting in person or by proxy at a meeting of shareholders, amend the Amended Incentive Plan or a share unit award to: (i) increase the number of Common Shares, or the percentage of the issued and outstanding Common Shares, issuable pursuant to the Amended Incentive Plan; (ii) make any amendment that would remove or increase the Aggregate Insider Limit; (iii) make any amendment that would increase the number of Common Shares issuable pursuant to outstanding share unit awards (including a cancellation and reissue of a share unit award that constitutes an increase in the number of Common Shares underlying the share unit award); (iv) extend the payment date of any share unit award granted under the Amended Incentive Plan beyond the payment date of the share unit award determined at the date of grant in accordance with the Amended Incentive Plan, except with respect to a payment date that occurs during a blackout period; (v) expand the categories of individuals contained in the definition of "Eligible Person" who are eligible to participate in the Amended Incentive Plan; (vi) amend the Amended Incentive Plan to permit the transfer or assignment of share unit awards, except to permit a transfer to a family member, an entity controlled by the grantee or a family member, a charity or for estate planning or estate settlement purposes; or (vii) amend the amendment provision of the Amended Incentive Plan.

As at March 20, 2015, Options to purchase 763,010 Common Shares were outstanding (approximately 0.5% of the issued and outstanding Common Shares) and 350,032 Common Shares were issuable pursuant to outstanding share unit awards (approximately 0.2% of the issued and outstanding Common Shares) assuming in the case of the share unit awards, that the Amended Incentive Plan is approved by shareholders. See "Securities Authorized for Issuance under Equity Compensation Plans"). If the Amended Incentive Plan is approved by shareholders at the Meeting, the Company will be able to grant Options and share unit awards pursuant to which, in aggregate, an additional 13,820,273 Common Shares may be issued.

If the Amended Incentive Plan is approved by shareholders, and subject to the applicable share award unit holder's consent, all previously issued share unit awards shall be subject to the terms of the Amended Incentive Plan and shall be entitled to receive cash or Common Shares upon payment therefor. If the Amended Incentive Plan is not approved by shareholders, the Incentive Plan will remain in its current form and the Company will not be entitled to settle the share unit awards through the issuance of Common Shares from treasury.

The Amended Incentive Plan has been conditionally approved by the TSX, subject to shareholder approval.

### Text of Resolution

To be effective, the resolution to approve the Amended Incentive Plan must be passed by a simple majority of the votes cast thereon by the holders of Common Shares represented in person or by proxy at the Meeting. **The Board unanimously recommends that shareholders vote in favour of this resolution.** The persons designated in the enclosed form of proxy, unless instructed otherwise, intend to vote **FOR** the resolution. The text of the resolution is set out below.

**"BE IT RESOLVED** as an ordinary resolution of the holders of common shares of PrairieSky Royalty Ltd. (the "**Company**") that:

1. the Company's share unit incentive plan, as amended and restated (the "**Incentive Plan**"), as described in the information circular and proxy statement of the Company dated March 20, 2015 (the "**Circular**"), is hereby approved, ratified and confirmed until April 28, 2018;
2. any director or officer of the Company be authorized, on behalf of the Company, to make any amendments to the Incentive Plan as may be required by regulatory authorities, without further approval of the shareholders of the Company, in order to ensure regulatory approval of the Incentive Plan; and
3. any director or officer of the Company be, and such director or officer of the Company hereby is, authorized and directed, acting for, in the name of and on behalf of the Company, to do or to cause to be done all such other acts and things as in the opinion of such director or officer of the Company may be necessary or desirable in order to give full effect to the intent and purpose of this resolution."

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board has adopted mandates, position descriptions and corporate governance principles and practices that are intended to meet or exceed the independence and other governance standards and guidelines set out in National Instrument 52-109 – *Certification of Disclosure in Issuers Annual and Interim Filings*, National Instrument 52-110 – *Audit Committees* ("**NI 52-110**"), National Instrument 58-101 – *Disclosure of Corporate Governance Practices* ("**NI 58-101**") and National Policy 58-201 – *Corporate Governance Guidelines*. The corporate governance principles address various topics, including:

- responsibilities and duties of the Board;
- composition of the Board, including criteria for remaining a director;
- compensation of the Board;
- composition and responsibilities of the Audit Committee, the Reserves Committee and the Governance and Compensation Committee;
- relationship of the Board to management; and
- director orientation and continuing education.

### The Board

The Company has five directors, four of whom are independent as specified in NI 58-101. A director is independent if he or she has no direct or indirect material relationship with the Company or its

subsidiaries. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. Certain types of relationships are, by their nature, considered to be material relationships.

Our independent board members conduct "in-camera" sessions as part of the agenda of each regularly scheduled meeting, generally immediately following regularly scheduled Board meetings and committee meetings.

Our Board mandate requires that the Board must hold in camera meetings regularly, without non-independent directors, officers or other management team members present. Both the Board, as well as all Board committees, meet in-camera and independent of management at every meeting. The chairs of the Board and the Board committees follow up with the President and Chief Executive Officer as necessary with respect to matters requiring management action that are raised at these in-camera meetings. The Board also excuses members of management and any non-independent directors from portions of any meeting at which a potential conflict arises or where otherwise appropriate. In 2014, seven Board meetings were called and the independent directors met following each meeting.

All of the members of the Board are independent directors of the Company, except Mr. Phillips because he is the President and Chief Executive Officer of the Company ("**CEO**").

Certain directors of the Company are also directors of other reporting issuers (or the equivalent):

<b>Director</b>	<b>Other Directorships</b>	<b>Stock Exchange Listing</b>
James M. Estey	Gibson Energy Inc. New Gold Inc.	TSX TSX, NYSE
Margaret A. McKenzie	Bonavista Energy Corporation Encana Corporation	TSX TSX, NYSE
Sheldon B. Steeves	Enerplus Corporation NuVista Energy Ltd.	TSX, NYSE TSX
Grant A. Zawalsky	NuVista Energy Ltd. Whitecap Resources Inc. Zargon Oil & Gas Ltd.	TSX TSX TSX

## Meeting Attendance

The following is a summary of attendance of the directors at meetings of the Board and its committees for 2014.

Name	Meetings Attended				
	Board of Directors	Audit Committee	Governance and Compensation Committee	Reserves Committee	Independent Directors
James M. Estey	7/7	3/3	1/1	-	7/7
Sherri Brillon <sup>(1)(5)</sup>	5/5	-	-	-	5/5
Margaret A. McKenzie <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A
Andrew Phillips	7/7	-	-	-	-
Brian G. Shaw <sup>(3)(5)</sup>	7/7	3/3	1/1	-	7/7
Sheldon B. Steeves	7/7	-	1/1	-	7/7
Bruce G. Waterman <sup>(4)(5)</sup>	7/7	3/3	-	-	7/7
Grant A. Zawalsky <sup>(2)</sup>	N/A	N/A	N/A	N/A	N/A

Notes:

- (1) Ms. Brillon resigned as a director of the Company on September 30, 2014.
- (2) Mr. Zawalsky and Ms. McKenzie were appointed to the Board on December 19, 2014.
- (3) Mr. Shaw resigned as a director of the Company on December 19, 2014.
- (4) Mr. Waterman resigned as a director of the Company on December 19, 2014.
- (5) Ms. Brillon and Messrs. Shaw and Waterman were each nominees of Encana Corporation under the terms of the governance agreement dated May 29, 2014 between the Company and Encana Corporation (the "**Governance Agreement**"). On September 26, 2014, the Governance Agreement was terminated in accordance with its terms.

## Interlocking Boards

The Board's mandate does not specifically prohibit interlocking board positions. The Board prefers to examine each situation on its own merits with a view to examine material relationships which may affect independence. The interlocking board memberships among our directors as at March 20, 2015 are outlined below.

Company	Director	Committee Membership
Nuvista Energy Ltd.	Grant A. Zawalsky	Director Governance and Nominating Committee
	Sheldon B. Steeves	Director Governance and Nominating Committee

The Board has determined that the above common board memberships do not impair the ability of these directors to exercise independent judgment as a member of the Board.

## Board Mandate

The primary responsibility of the Board is to appoint competent management and to oversee the management of the Company with a view to maximize shareholder value and ensure corporate conduct in an ethical and legal manner through an appropriate system of corporate governance and internal controls. The Board has absolute and exclusive power, control and authority over the property and affairs

of the Company. Subject to the provisions of the *Business Corporations Act* (Alberta), the Board may delegate certain of those powers and authority that the directors of the Company, or independent directors, as applicable, deem necessary or desirable to effect the actual administration of the duties of the Board. The directors of the Company have certain responsibilities as more particularly described in the Board of Directors' Mandate, a copy of which is attached as Appendix "D" to this information circular and proxy statement.

### Position Descriptions

The Board has adopted written guidelines for the Chair of the Board, the Chair of each of the Audit Committee, the Governance and Compensation Committee, the Reserves Committee and the CEO.

The primary responsibilities of the Chair of the Board include: (i) ensuring that the Board is properly organized, functions effectively and meets its obligations and responsibilities in all aspects of its work, including those relating to corporate governance matters; and (ii) working with the CEO to co-ordinate the affairs of the Board and ensure effective relations with the directors of the Company, shareholders, other stakeholders and the public.

The responsibilities of the Chair of each committee include: (i) ensuring that their respective committee is properly organized, functions effectively and meets its obligations and responsibilities in accordance with its mandate; and (ii) to liaise and communicate with the Chair of the Board to co-ordinate input from the committee for Board meetings.

The primary responsibilities of the CEO include: (i) providing general direction and management of the business and affairs of the Company in accordance with the corporate strategy and objectives approved by the Board, within the authority limitations delegated by the Board; and (ii) establishing a process of supervision of the business and affairs of the Company that are consistent with corporate objectives, ensuring that procedures are in place for proper external and internal corporate communications to all stakeholders, and monitoring and reporting results to the Board.

### Orientation and Continuing Education

The orientation and continuing education of the directors of the Company is the responsibility of the Governance and Compensation Committee. The details of the orientation of new directors will be tailored to the needs and areas of expertise of the applicable director and include the delivery of written materials and participation in meetings with management and directors. The focus of the orientation program is on providing new directors with: (i) information about the duties and obligations of directors; (ii) information about the Company's strategy and business; (iii) the expectations of directors; (iv) opportunities to meet with management and any other senior employees or consultants designated for this purpose; and (v) access to documents from recent meetings of the Board.

The current directors of the Company were chosen for their specific level of knowledge and expertise. All directors are provided with materials relating to their duties, roles and responsibilities. In addition, directors are kept informed as to matters impacting, or which may impact, the business of the Company through reports and presentations by internal and external presenters at meetings of the Board and during periodic strategy sessions held by the Board.

### Director Term Limits

In light of the Company's stage of development and the recent appointment of all members of the Board, the Board has not adopted term limits for its directors or any other formal mechanism of Board renewal at this time. The Board does however have informal means of reviewing the contributions of its directors to the effectiveness of the Board through annual director and committee evaluations, annual review of the skills and needs of the Board and succession planning. Through these and other measures, the Board

believes it can effectively monitor and evaluate its effectiveness and diversity while balancing the value of experience and continuity of its incumbent directors.

### Representation of Women on the Board and in Executive Officer Roles

The Company currently has one female director (25% of the independent directors) and two female executive officers (50% of the executive officers).

The Board has not adopted a written policy relating to the identification and nomination of female directors nor does it have targets regarding the number of women on the Board. The Board believes that director nominations should be made on the basis of the skills, knowledge, experience and character of individual candidates and the requirements of the Board at the time. The Company is committed to a meritocracy and believes that considering the broadest group of individuals with the skills, knowledge, experience and character required to provide the leadership needed to achieve its business objectives is in the best interests of the Company and its stakeholders, without reference to their age, gender, race, ethnicity or religion. While the Board recognizes the benefits of diversity at the Board level and in assessing candidates and selecting nominees for the Board, diversity will also be considered by the Governance and Compensation Committee, the Board will not compromise the principles of a meritocracy.

The Board does not specifically consider the level of female representation in executive officer positions when making such appointments nor does it have targets in respect of appointing women to these positions. Similar to the Board's approach in considering director nominations, in making appointments to executive officer positions, the Board considers each candidate's experience, knowledge, education, management capabilities and competency, as well as the effect of the appointment on the diversity of the Company's executive officers as a whole. The Company is staffed with a large female contingent and given its focus on the identification, assessment and development of internal candidates to build leadership capability and strengthen overall succession, the Company believes it is poised to ensure it has strong internal female candidates to drive both short and long-term performance. The Company's philosophy of development and promotion from within will strengthen its values and culture, aid in retention of talent and provide a diversity of options for succession.

### Business Code of Conduct

The Board has adopted a written business code of conduct that encourages and promotes a culture of ethical business conduct that is applicable to directors, management, employees and consultants of the Company. The Company has filed a copy of the business code of conduct on SEDAR at [www.sedar.com](http://www.sedar.com) under the Company's profile.

The Company's code of ethics applies to all directors, officers, employees and contractors. All employees (including executive officers) and directors are required to certify compliance with the code of ethics annually. The Board has the responsibility to monitor compliance with the code of ethics and to recommend improvements as deemed necessary or appropriate. The Company monitors compliance with the code of ethics, and the board of directors and management of the Company encourage and promote a culture of ethical business conduct in the following ways: (i) annual review and certification; (ii) business code of conduct training program; (iii) fraud response plan; (iv) business code of conduct violation reporting; and (v) internal audit functions.

In addition to the business code of conduct, the Board has adopted an investigations practice which includes employees with the ability to have procedures in place to address the confidential, anonymous submission by employees of concerns regarding accounting, internal accounting controls or auditing matters, or to address the receipt, retention and treatment of concerns regarding accounting, internal accounting controls or auditing matters. The Board believes that providing a forum for employees to raise concerns about ethical conduct and treating all complaints with the appropriate level of seriousness fosters a culture of ethical conduct.

## Material Interests

The Company is engaged in the oil and natural gas business. In general, the private investment activities of directors are not prohibited, however, should an existing investment pose a potential conflict of interest the potential conflict is required to be disclosed to the President and CEO or the Board.

It is acknowledged that directors may be directors or officers of other entities engaged in the oil and natural gas business, and that such entities may compete directly or indirectly with the Company. Any director who is a director or officer of any entity engaged in the oil and natural gas business is required to disclose such occurrence to the Board. Any director or officer of the Company who is actively engaged in the management of, or who owns (i) an investment of 1% or more of the outstanding Common Shares; or (ii) an investment that represents greater than 5% of his or her personal net worth, in public or private entities is required to disclose such holdings to the Board. In the event that any circumstance should arise as a result of such positions or investments being held or otherwise which in the opinion of the Board constitutes a conflict of interest which may reasonably affect such person's ability to act with a view to the best interests of the Company, the Board will take such actions as are reasonably required to resolve such matters with a view to the best interests of the Company. Such actions, without limitation, may include excluding such directors from certain information or activities of the Company.

## Restrictions on Trading Activities

In addition to the Company's Securities Trading and Insider Reporting Policy, and given the unique nature of the Company's business, the Board has adopted the Restricted Securities Trading Policy to assist management and the Board in identifying potential conflicts of interest and ensuring adherence to good governance practices and applicable securities laws with respect to trading in securities of the Company and oil and natural gas companies in western Canada, some of whom may be engaged in business with the Company from time to time. Pursuant to the Restricted Securities Trading Policy, the Corporate Secretary of the Company maintains a restricted list of companies who are engaged in active business negotiations with the Company and whom the Company may have material information from time to time (such as well results) which is not generally available to the public. All employees, contractors, officers and directors of the Company are required to contact the Corporate Secretary prior to trading in any securities of an issuer who is engaged in the oil and natural gas or natural resources business in western Canada (including the Company), to determine, prior to such trade, whether the issuer is on the restricted list. If the issuer is on the restricted list, the covered person shall not trade, directly or indirectly, securities of the issuer. Violations of the Restricted Securities Trading Policy may result in disciplinary action up to and including termination of employment or contract, as applicable. The Company may refer violations of the Restricted Securities Trading Policy or relevant laws to the appropriate regulatory authorities. Actions that violate or appear to violate the Restricted Securities Trading Policy must be reported in accordance with the Company's investigations practice.

## Nomination and Election of Directors

The Governance and Compensation Committee is responsible for recommending suitable candidates for nomination for election as directors of the Company in accordance with the terms of its mandate. The shareholders are entitled to elect directors of the Company.

The Board has adopted a majority voting policy, which provides that if a nominee for election as a director receives a greater number of votes "withheld" than votes "for" at an uncontested meeting of the shareholders of the Company, such nominee shall offer his or her resignation as a director to the Board promptly following the meeting of shareholders at which the director was elected. Upon receiving such offer of resignation, the Governance and Compensation Committee will consider such offer and make a recommendation to the Board whether to accept it or not. In the absence of special circumstances, it is expected that the Board will accept the resignation consistent with an orderly transition. The director will not participate in any Governance and Compensation Committee or Board deliberations on the

resignation offer. It is anticipated that the Board will make its decision to accept or reject the resignation within 90 days.

In addition, the Company's by-laws also include "advance notice provisions" designed to: (i) facilitate an orderly and efficient annual meeting or, where the need arises, special meeting, process; (ii) ensure that all shareholders receive adequate notice of director nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote having been afforded reasonable time for appropriate deliberation. As a whole, these provisions are intended to provide shareholders, directors and management of the Company with a clear framework for nominating directors. In particular, these provisions of the by-laws fix a deadline (being not less than 30 days before the date of an annual meeting of shareholders and, in the case of a special meeting, the 15th day following the day on which the first public announcement of the date of the special meeting of shareholders was made) by which holders of record of Common Shares must submit director nominations to the Company prior to any annual or special meeting of shareholders, and also set forth the information that a shareholder must include in the notice to the Company for the notice to be in proper written form in order for any director nominee to be eligible for election at any annual or special meeting of shareholders. The Company's by-laws are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Compensation of Directors and Officers

The remuneration of the directors of the Company is set, and periodically reviewed, by the Board on the recommendation of the Governance and Compensation Committee.

The compensation of management is periodically reviewed by the Board on the recommendation of the Governance and Compensation Committee. See "*Executive Compensation*".

### Share Ownership Guidelines

The Company has adopted share ownership guidelines to encourage alignment with the interests of shareholders by requiring its directors and management to build and hold equity in the Company in accordance with prescribed guidelines. Independent directors are required to accumulate and hold, within three years of his or her appointment, Common Shares representing three times his or her annual total compensation, including any DSUs granted to such directors. Up to 75% of such target Common Share ownership can be represented by DSUs. Officers of the Company are required, within three years of their appointment, to accumulate a multiple of their annual salary in the form of Common Shares, as follows: CEO (five times); Chief Financial Officer ("**CFO**") and Chief Operating Officer ("**COO**") (four times); and other executive officers (three times). No share based compensation (RSUs, PSUs and Options) are counted towards achieving such targets.

Name	Equity Ownership Guideline		Shareholdings			Guideline Met or Investment Required to Meet Guideline <sup>(2)</sup>
	Multiple of Salary/ Annual Compensation	Amount of Salary/ Annual Compensation Retainer (\$)	Common Shares (#)	Holdings as a Multiple of Salary Retainer	Value of Holdings (\$) <sup>(1)</sup>	
<i>Independent Directors:</i>						
James M. Estey	3x	210,000	1,394,877	201x	42,139,234	Guideline met
Margaret A. McKenzie	3x	145,000	312,720	65x	9,447,271	Guideline met
Sheldon B. Steeves	3x	140,000	35,714	8x	1,078,920	Guideline met



Name	Equity Ownership Guideline		Shareholdings			Guideline Met or Investment Required to Meet Guideline <sup>(2)</sup>
	Multiple of Salary/ Annual Compensation	Amount of Salary/ Annual Compensation Retainer (\$)	Common Shares (#)	Holdings as a Multiple of Salary Retainer	Value of Holdings (\$) <sup>(1)</sup>	
Grant A. Zawalsky	3x	130,000	104,172	24x	3,147,036	Guideline met
<i>Management</i>						
Andrew Phillips <i>President and Chief Executive Officer</i>	5x	400,000	499,435	38x	15,087,931	Guideline met
Cameron Proctor <i>Chief Operating Officer</i>	4x	320,000	43,776	4x	1,322,473	Guideline met
Cristina Lopez <i>Vice President, Corporate Development</i>	3x	300,000	13,747	1x	415,297	Investment required <sup>(2)</sup>
Michelle Radomski <i>Vice President, Land</i>	3x	245,000	8,010	1x	241,982	Investment required <sup>(2)</sup>

Notes:

(1) Value based on the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21.

(2) Directors and executive officers have three years from their appointment to adhere to the target Common Share ownership.

## Board Committees

The Board has appointed three standing committees: the Audit Committee, the Governance and Compensation Committee and the Reserves Committee.

### Audit Committee

The Audit Committee is comprised of Margaret McKenzie, as Chair, James M. Estey and Sheldon B. Steeves, all of whom are independent and financially literate within the meaning of that term under NI 52-110. The specific responsibilities of the Audit Committee are set out in the Audit Committee Mandate, a copy of which is attached as Schedule "C" to the Company's annual information form for the year ended December 31, 2014 dated February 23, 2015 (the "AIF"). The Audit Committee's primary role is to: (i) review management's identification of principal financial risks and monitor the process to manage such risks; (ii) oversee and monitor the Company's compliance with legal and regulatory requirements; (iii) oversee and monitor the integrity of the Company's accounting and financial reporting processes, financial statements and system of internal controls regarding accounting and financial reporting and accounting compliance; (iv) oversee audits of the Company's financial statements; (v) oversee and monitor the qualifications, independence and performance of the Company's external auditors; (vi) provide an avenue of communication among the external auditors, management, the accountants and the Board; and (vii) report to the Board regularly.

The Company believes that each of the members of the Audit Committee possesses substantially all of the following: (i) an understanding of the accounting principles used by the Company to prepare its financial statements; (ii) the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves; (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting

issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more individuals engaged in such activities; and (iv) an understanding of internal controls and procedures for financial reporting. For a summary of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee, see "*Directors and Executive Officers*" in the AIF.

### **Governance and Compensation Committee**

The Governance and Compensation Committee is comprised of James M. Estey, as Chair, Sheldon B. Steeves and Grant A. Zawalsky, all of whom are independent for the purposes of NI 58-101. The specific responsibilities of the Governance and Compensation Committee are set out in the Governance and Compensation Committee Mandate, a copy of which is available on the Company's website. The primary role of the Governance and Compensation Committee is to: (i) develop, implement and monitor governance standards and best practices; (ii) review the mandates of the Board and its committees; (iii) regularly assess the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors; (iv) oversee the preparation of the annual "Statement of Corporate Governance Practices"; (v) identify and recommend individuals for nomination as members of the Board and its committees and for appointment as officers; and (vi) review and recommend to the Board all matters pertaining to the compensation of directors and management.

### **Reserves Committee**

The Reserves Committee is comprised of Sheldon B. Steeves, as Chair, Margaret A. McKenzie and Grant A. Zawalsky, each of whom are independent for purposes of NI 51-101. Mr. Estey is an *ex officio* non-voting member of the Reserves Committee. The primary role of the Reserves Committee is to: (i) act in an advisory capacity to the Board; (ii) review the Company's procedures relating to disclosure of information with respect to crude oil, natural gas and natural gas liquids reserves and resources data; (iii) annually review the selection of the qualified reserves evaluators or auditors chosen to report to the Board on the Company's crude oil, natural gas and natural gas liquids reserves and resources data; and (iv) review the Company's annual reserves and resources estimates prior to public disclosure.

### **Assessment of Directors, the Board and Board Committees**

The members of the Board collectively assess the performance of the Board as a whole, the committees of the Board and all directors. Such assessment occurs annually with an emphasis on the overall effectiveness and contributions made by the Board as a whole, the committees of the Board and all directors individually.

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

The following discussion describes the significant elements of the Company's executive compensation program, with particular emphasis on the process for determining compensation payable to Andrew M. Phillips, as the CEO, L. Geoffrey Barlow, as the Vice-President, Finance and CFO of the Company, Cameron M. Proctor, as the COO of the Company and Cristina T. Lopez, as the Vice-President, Corporate Development ("**VP Corporate Development**") of the Company (collectively, the "**Named Executive Officers**" or "**NEOs**"). Mr. Barlow retired from the Company on February 24, 2015. PrairieSky has retained an executive recruiting firm and is undertaking a review of potential candidates to assume the role of CFO following Mr. Barlow's retirement.

#### General

Based on recommendations made by the Governance and Compensation Committee, the Board makes decisions regarding salaries, short-term incentives (in the form of annual cash awards or "**bonuses**") and long-term incentive compensation for management, and approves corporate goals and objectives relevant to the compensation of the CEO and the other members of management. The Board solicits input from the CEO and the Governance and Compensation Committee regarding the performance of the Company's other members of management. The Board also administers the incentive compensation and benefit plans with the assistance of the Governance and Compensation Committee.

#### CEO Compensation

The compensation of the CEO is reviewed annually and determined by the Board as a whole on the recommendation of the Governance and Compensation Committee. The level of CEO compensation is determined by the Board considering all factors which they deem appropriate, including chief executive officer salaries for companies of comparable size, industry, geography and complexity. The grant of incentive awards are determined by the Board, upon recommendation of the Governance and Compensation Committee, based on consideration such as the Company's overall performance, relative shareholder returns or other relevant factors.

Mr. Phillips became CEO on April 11, 2014 and his 2014 annualized compensation is highlighted below. A three year summary is not provided given PrairieSky commenced active operations on May 27, 2014.

Compensation Component	2014
Base Salary	\$400,000
Other Compensation <sup>(1)</sup>	\$20,000
Bonus	\$750,000
RSU/PSU Grants	\$900,000
Option Grant <sup>(2)</sup>	\$1,500,000
<b>Total Compensation</b>	<b>\$3,570,000</b>

Notes:

(1) Other Compensation includes savings plan contributions.

- (2) Mr. Phillips' 2014 Option grant includes \$300,000 of fair value pursuant to an annual award of Options, plus \$1,200,000 of fair value pursuant to a one-time sign on award.

As of December 31, 2014 Mr. Phillips held the following number of Common Shares, RSU/PSUs and Options.

Share Based Component	Number of Shares/Units/Options	Value
Common Shares <sup>(1)</sup> (Privately Held)	498,773	\$15,067,932
Common Shares <sup>(1)</sup> (PrairieSky's Savings Plan)	662	\$19,999
<b>Total Common Shares Owned</b>	<b>499,435</b>	<b>\$15,087,931</b>
RSU/PSUs <sup>(2)</sup>	32,143	\$992,368
Options <sup>(3)</sup>	340,909	\$753,409
<b>Total</b>		<b>\$16,833,708</b>

Notes:

- (1) Common Share value based on the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21.  
(2) RSU/PSU value based on the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21 and a performance multiplier assumed at 1.0x. The value of the share unit awards includes dividend equivalents.  
(3) Options are valued using the "in-the-money" amount of such Options using the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21.

### *Compensation Objectives and Principles*

The Board recognizes that the Company's success depends greatly on its ability to attract, retain and motivate employees at all levels, which can only occur if the Company has an appropriately structured and executed compensation program. The Company's compensation policies are founded on the principle that executive and employee compensation should be consistent with shareholders' interests and the Company's incentive programs are therefore intended to encourage decisions and actions that will result in the Company's growth and create long-term shareholder value, while specifically not rewarding excessive risk-taking by management or employees. In determining the compensation to be paid to management, the Governance and Compensation Committee considers various items including corporate achievements, comparative market data and information supplied by management or external consultants with expertise on such matters.

The principal objectives of the Company's executive compensation program are as follows:

- to attract and retain qualified management;
- to have a compensation package that is competitive within the marketplace;
- to align management's interests with those of the shareholders; and
- to reward the demonstration of both leadership and performance that creates long-term shareholder value.

The Governance and Compensation Committee's objective is to ensure the compensation of the Named Executive Officers provides a competitive package that reflects the above objectives, as well as provide a link between discretionary short and long-term incentives with short and long-term corporate goals. The compensation package has been designed to reward performance based on the achievement of performance goals and objectives and to be competitive with comparable companies in the market in which the Company competes for talent. See "Total Compensation Mix" below.

In establishing the executive compensation programs the Governance and Compensation committee also considers the implication of the risks associated with the executive compensation program, including: (i) the risk of executives taking inappropriate or excessive risks; (ii) the risk of inappropriate focus on achieving short-term goals at the expense of long-term return to shareholders; (iii) the risk of encouraging aggressive accounting practices; and (iv) the risk of excessive focus on financial returns and operational goals at the expense of regulatory, environmental and health and safety.

While no program can fully mitigate these risks the Board believes that many of these risks are mitigated by: (i) weighting the Company's long-term incentives towards share ownership and vesting long-term incentives over a number of years; (ii) establishing a uniform incentive program for all executive officers and employees; (iii) avoiding narrowly focused performance goals which may encourage loss of focus on providing long term shareholder return and retaining adequate discretion to insure that the Governance and Compensation Committee and board retain their business judgment in assessing actual performance; and (iv) establishing a strong commitment to for accounting, regulatory, environmental and health and safety compliance.

### *Benchmarking Executive Compensation*

To benchmark the magnitude and mix of management's compensation arrangements, in forming the compensation market for the Company (the "**Compensation Market**"), the Board has considered the size, scope, stage of development and risk profile of the Company against a peer group of companies using the following parameters:

- comparable market capitalization to the Company;
- comparable annual average production levels, revenue and funds from operations to the Company as at the most recent year end;
- companies with producing properties and significant undeveloped acreage in the Western Canadian Sedimentary Basin; and
- companies in the oil and natural gas and mining industries with a royalty or dividend-focused business model.

Based on these parameters, the following are the peer group of companies used in determining the Compensation Market for 2014:

ARC Resources Ltd.	Franco-Nevada Corporation	Penn West Exploration Ltd.
Baytex Energy Corp.	Freehold Royalties Ltd.	Peyto Exploration & Development Corp.
Bellatrix Exploration Ltd.	Labrador Iron Ore Royalty Corporation	Silver Wheaton Corp.
Birchcliff Energy Ltd.	Legacy Oil + Gas Inc.	Surge Energy Inc.
Bonavista Energy Corporation	Lightstream Resources Ltd.	TORC Oil & Gas Ltd.
Bonterra Energy Corp.	NuVista Energy Ltd.	Tourmaline Oil Corp.
Crew Energy Inc.	Paramount Resources Ltd.	Trilogy Energy Corp.
Enerplus Corporation	Pengrowth Energy Corporation	Whitecap Resources Ltd.

The composition of the peer group of companies is used by the Board to benchmark management's compensation arrangements, and is reviewed periodically and may be adjusted in order to continue to align to the noted parameters and to reflect acquisition and/or divestiture activity within the group. Further, in determining performance metrics for granted PSUs under the Incentive Plan, the Board will consider a subset of the peer group of companies in measuring relative total shareholder return.

### *Short Selling and Restrictions*

The Company's directors and officers are prohibited from knowingly selling, directly or indirectly, any of the Company's securities if such person selling such security does not own or has not fully paid for the security to be sold. Directors and officers are also not permitted to buy or sell a call or put in respect of any of the Company's securities. Notwithstanding these prohibitions, directors and officers may sell a Common Share which they do not own if they own another security convertible into Common Shares or an option or right to acquire Common Shares sold and, within 10 days after the sale, the director or officer: (i) exercises the conversion privilege, option or right and delivers the Common Share so associated to the purchaser; or (ii) transfers the convertible security, option or right, if transferable to the purchaser.

### *Components of Compensation*

The following components comprise the compensation package for the Named Executive Officers: (i) base salary; (ii) annual cash awards; and (iii) participation in the Company's long-term incentive program. All salary increases, cash bonuses and long-term incentive compensation for the Named Executive Officers are reviewed by the Governance and Compensation Committee and amended as deemed appropriate with the approval of the Board.

#### *Base Salary*

The base salary of each Named Executive Officer is, subject to a minimum amount established under the executive employment agreements described below, determined by the Governance and Compensation Committee. The base salary of each Named Executive Officer is based on the median of the Compensation Market but may be adjusted upward or downward to reflect factors that include the relative complexity of the Named Executive Officer's role as compared to the Compensation Market. Salaries are reviewed annually and compared to the Compensation Market through publicly available documents and the broader market through analysis of industry compensation surveys as prepared by external compensation consultants. Consideration is also given to internal factors including the strategy and growth plans of the Company and the objective to attract and retain highly talented individuals from the industry. No salary increases were made for the Named Executive Officers for 2015.

#### *Annual Cash Awards*

Annual cash awards are intended to motivate and reward Named Executive Officers for achieving and surpassing annual corporate and individual goals, but are not guaranteed year over year. The amount of the cash award or "bonus" is determined by reference to a target percentage of base salary, which reflects the median opportunities for such cash awards in the Compensation Market. Bonuses for the Named Executive Officers, excluding the CEO, are recommended by the CEO and reviewed and approved by the Governance and Compensation Committee. Bonuses for the CEO are recommended by the Governance and Compensation Committee and approved by the Board. The 2014 targeted bonus percentage for the CEO was 100% of base salary and the targeted bonus percentage for the other Named Executive Officers was 75% of base salary. Actual cash awards range from zero to two times the 2014 targeted bonus percentage, unless otherwise determined by the Board, in its sole discretion, where such discretion will be subject to a maximum of three times the targeted bonus percentage.

For 2015, the target bonuses for Mr. Phillips were increased from 100% to 150% and from 75% to 100% for Mr. Proctor. Not other changes were made to the Named Executive Officers' target bonuses for 2015.

#### *Long-Term Incentive Program*

The long-term incentive program of the Company generally involves a portfolio of awards comprised of: 50% PSUs grants and 25% RSUs grants, each under the Incentive Plan, and 25% grants of Options under the Option Plan (as defined below). These awards are intended to encourage participants to focus

on creating and improving the Company's long-term financial success and provide participants an opportunity to benefit from the share performance of the Company. The purpose of the long-term incentive program is to align the interests of shareholders and management. See "*Executive Compensation — Incentive Award Programs*".

#### *Retirement Savings Plan*

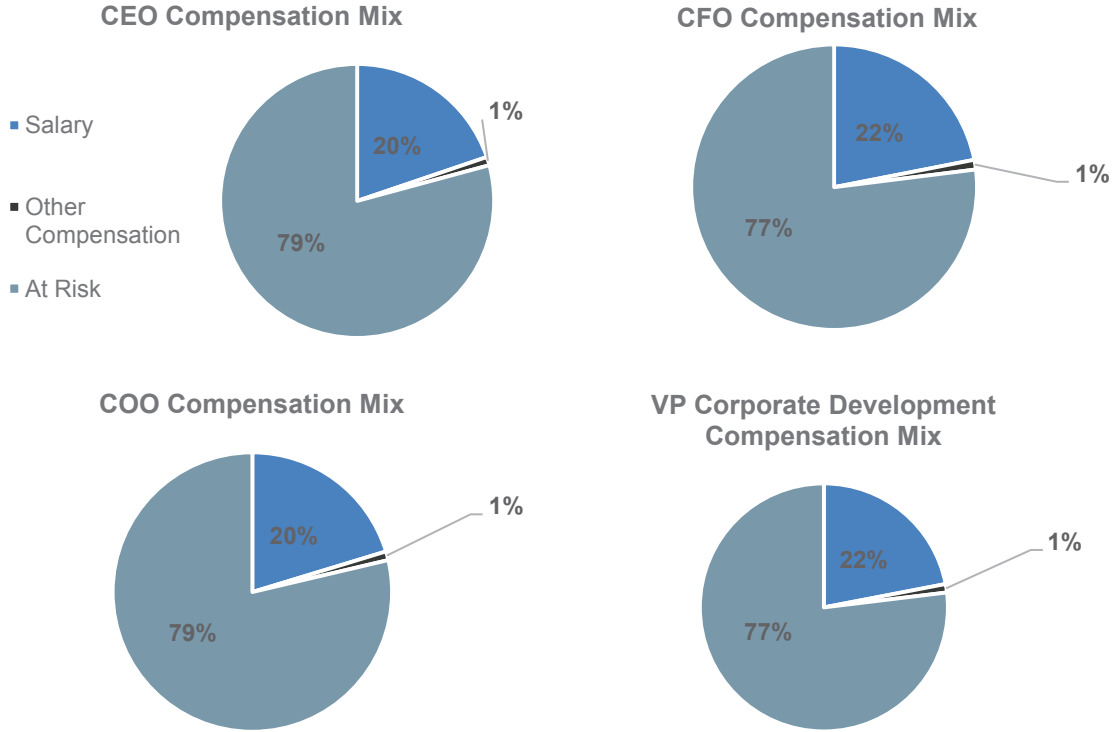
The Company has adopted a plan to provide all employees of the Company, including the Named Executive Officers, the opportunity to save for retirement that is comparable to the Company's peers. This plan consists of a group registered savings plan and a group non-registered savings plan in which the Company matches a percentage of a participant's contributions up to a set maximum of 5% (increased to 6% for 2015). The plan requires that the Company-match portion of the savings plan contributions be used by the external custodian and manager of the plan to purchase Common Shares through the facilities of the TSX. The plan is considered an automatic securities purchase plan and contains certain restrictions with respect to changing contribution levels, changing investment directions and also withdrawal of investments in the plan.

#### *Other Compensation Elements*

To ensure the Company's compensation packages remain competitive with those of its peers, the Named Executive Officers receive certain perquisites, including an annual allowance for personal benefits selected by the Named Executive Officer, company-provided parking and executive health care package. In the case of the CEO, a company-paid business club membership is also provided.

#### *Total Compensation Mix*

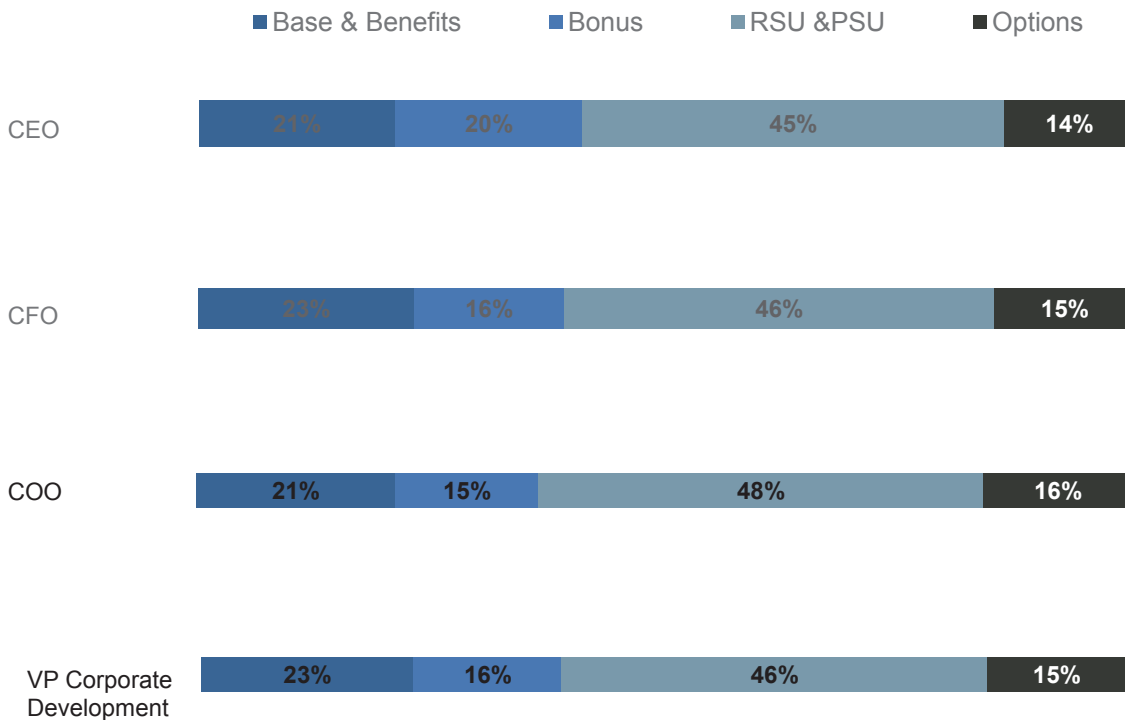
PrairieSky's compensation philosophy is designed to align compensation with corporate performance and therefore the majority of executive compensation is performance based and "at risk". The graphs below demonstrate the "at risk" pay for the CEO as well as the "at risk" pay for all other NEOs. Approximately 82% of the CEO's compensation and on average 78% of other NEO's compensation is "at risk".



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- (1) "At Risk" Compensation includes Options, shares unit awards and 2014 target bonus. (100% of Base Salary (CEO); 75% of Base Salary (COO; CFO; VP Corporate Development)).
- (2) Does not include Mr. Phillips' grant of Options with a fair value of \$1,200,000 pursuant to a one-time sign on award.

Below is a further breakdown of CEO and all other NEO compensation by component. Long-term incentives (RSUs, PSUs and Options) comprise on average approximately 63% of an NEO's total compensation.





## Summary Compensation Table

The following table sets out annualized compensation paid by the Company to the Named Executive Officers for the fiscal year ended December 31, 2014, where total compensation was more than \$150,000.

Name and principal position	Salary (\$) <sup>(1)</sup>	Share-based awards (\$) <sup>(2)</sup>	Option-based awards (\$) <sup>(3)(4)</sup>	Non-equity incentive plan compensation		Pension value (\$) <sup>(6)</sup>	All other compensation <sup>(7)</sup>	Total compensation (\$)
				Annual incentive plans \$ <sup>(5)</sup>	Long-term incentive plans (\$) <sup>(5)</sup>			
Andrew M. Phillips <sup>(8)</sup> , CEO	400,000	900,000	1,500,000	750,000	-	20,000	-	3,570,000
Cameron M. Proctor, COO <sup>(9)</sup>	320,000	750,000	250,000	450,000	-	16,000	-	1,786,000
Cristina T. Lopez, VP Corporate Development	300,000	618,750	206,250	75,000	-	15,000	-	1,215,000
L. Geoffrey Barlow, CFO <sup>(10)</sup>	335,000	693,750	231,250	-	-	16,750	-	1,276,750

### Notes:

- (1) Base salaries presented are annualized amounts. The actual salaries paid during the year are prorated based on the May 29, 2014 closing date of the initial public offering by way of secondary offering of 59,800,000 Common Shares at a price of \$28.00 per share, including 7,800,000 Common Shares sold pursuant to the over-allotment option granted to the underwriters (the "Initial Public Offering"), other than to Ms. Lopez. Ms. Lopez was appointed as VP Corporate Development on September 3, 2014.
- (2) Represents the fair value of RSUs and PSUs awarded to the Named Executive Officer, other than to Ms. Lopez, under the Incentive Plan upon closing of the Initial Public Offering. Ms. Lopez was awarded RSUs and PSUs upon her appointment as VP Corporate Development. The RSU and PSU compensation expenses are accounted for on a fair value basis in accordance with the International Financial Reporting Standards and may be allocated for accounting purposes.
- (3) Represents the fair value of Options awarded to the Named Executive Officers, other than Ms. Lopez, under the Option Plan upon closing of the Initial Public Offering. Ms. Lopez was awarded Options upon her appointment as VP Corporate Development. The fair value of Options presented may be different from valuation using Black-Scholes model (or other model adopted by the Company in accordance with IFRS).
- (4) The Option value noted for Mr. Phillips includes \$300,000 of fair value pursuant to an annual award of Options, plus \$1,200,000 of fair value pursuant to a special, one-time sign-on award.
- (5) Represents the amount of non-equity incentive compensation awarded to the Named Executive Officers in the form of annual cash awards for the 2014 calendar year, prorated based on the Named Executive Officer's start date of February 20, 2014 (CEO), March 31, 2014, (COO), April 11, 2014 (CFO) and September 3, 2014 (VP, Corporate Development). The Company has not awarded any non-equity based long-term incentive plan compensation for the 2014 calendar year.
- (6) The amount of pension value compensation of the Named Executive Officers for the 2014 calendar year. See "Executive Compensation – Compensation Discussion and Analysis – Components of Compensation – Retirement Savings Plan".
- (7) No property or other personal benefits were provided to the NEOs that are not generally available to all employees, and that in aggregate were worth \$50,000 or more, or were worth 10% or more of the NEO's total salary for the year ended December 31, 2014.
- (8) All amounts paid to Mr. Phillips were in respect of his position as CEO. Mr. Phillips did not receive any compensation for his role as a director of the Company.
- (9) During the year ended December 31, 2014, Mr. Proctor was the Vice-President, Legal & Corporate Services. On February 2, 2015, Mr. Proctor was appointed COO.
- (10) Mr. Barlow retired from the Company effective February 24, 2015. In accordance with the terms of the Option Plan, the Incentive Plan and his executive employment agreement, Mr. Barlow's Options and share unit awards were fully vested upon his retirement.

### Outstanding Option-Based Awards and Share-Based Awards

The following table sets forth, for each Named Executive Officer, the value of all option-based and share-based awards that were outstanding as of December 31, 2014.

Name and principal position	Option-based awards				Share-based awards		
	Common Shares underlying unexercised Options (#)	Exercise prices of Options (\$)	Option expiration dates	Value in unexercised in-the-money Options (\$) <sup>(1)</sup>	Number of RSUs and PSUs that have not vested (#) <sup>(2)</sup>	Market or payout value of RSUs and PSUs that have not vested (\$) <sup>(3)</sup>	Market Value of RSUs and PSUs not Paid Out (\$) <sup>(5)</sup>
Andrew M. Phillips, CEO	340,909	\$28.00	May 29, 2019	753,409	32,143	900,000	992,368
Cameron M. Proctor, COO	56,818	\$28.00	May 29, 2019	125,568	26,786	750,000	826,969
Cristina T. Lopez, VP Corporate Development	46,875	\$39.03	Sept. 3, 2019	-	15,853	618,750	489,432
L. Geoffrey Barlow, CFO <sup>(6)</sup>	52,557	\$28.00	May 29, 2019	116,151	24,777	693,750	764,947

Notes:

- (1) Calculated based on the difference between the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21 and the exercise price of the Options.
- (2) None of the RSUs or PSUs granted under the Incentive Plan vested during the year ended December 31, 2014.
- (3) Represents the market value of the RSUs and PSUs on the respective grant date.
- (4) All RSUs and PSUs are paid out upon vesting, which is anticipated to occur on the third anniversary of the grant date.
- (5) Calculated based on the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21, including dividend equivalents.
- (6) Mr. Barlow retired from the Company effective February 24, 2015. In accordance with the terms of the Option Plan, the Incentive Plan and his executive employment agreement, Mr. Barlow's Options and share unit awards were fully vested upon his retirement.

### Option-Based Awards and Share-Based Awards — Value Vested or Earned

The following table sets forth for each Named Executive Officer, the value of non-equity incentive plan compensation earned during the year ended December 31, 2014. No option-based or share-based awards awarded to the Named Executive Officers have vested during the last calendar year.

Name	Non-equity incentive plan compensation – Value earned during the year <sup>(1)</sup> \$
Andrew M. Phillips, CEO	750,000
Cameron M. Proctor, COO	450,000
Cristina T. Lopez, VP Corporate Development	75,000
L. Geoffrey Barlow, CFO	-

Note:

- (1) Represents the amount of non-equity incentive compensation awarded to the Named Executive Officers in the form of annual cash awards for the 2014 calendar year, prorated based on the Named Executive Officer's start date of February 20, 2014 (CEO), March 31, 2014, (COO), April 11, 2014 (CFO) and September 3, 2014 (VP, Corporate Development). The Company has not awarded any non-equity based long-term incentive plan compensation for the 2014 calendar year.

### Termination and Change of Control Benefits

The Company has entered into executive employment agreements with each Named Executive Officer. The terms of such employment agreements are in accordance with current market standards for agreements of a similar nature and include change of control provisions that provide for payment of severance, which includes the aggregate of: (i) the executive's annual base salary, plus (ii) the average annual bonus awarded to the executive over the prior three years, plus (iii) 15% of base salary for the loss of benefits. The severance payment will be calculated based on a notice period multiplier of two for the CEO and one and a half for the CFO, COO and VP Corporate Development, in the event of both: (i) a change of control of the Company; and (ii) subsequent termination of employment of the Named Executive Officer within a six month period. For purposes of the executive employment agreements, termination may be by the Company (other than for cause) or at the election of the Named Executive Officer for specified reasons, such as material alteration in duties, required relocation or a material reduction in salary or benefits.

The following table sets forth the estimated incremental payments (rounded to the nearest hundred dollars) that would be made to each of the Named Executive Officers assuming a change of control termination event (as described in the table above) occurred on December 31, 2014.

Name	Severance Period (Months)	Salary (\$)	Bonus (\$) <sup>(1)</sup>	Benefits and Perquisites (\$)	Share Awards (\$) <sup>(2)</sup>	Options Awards (\$)	Total Incremental Payment (\$)
Andrew M. Phillips, CEO	24	800,000	800,000	120,000	992,368	753,409	3,465,777
Cameron M. Proctor, COO	18	480,000	360,000	72,000	826,969	125,568	1,864,536
Cristina T. Lopez, VP Corporate Development	18	450,000	337,500	67,500	489,432	-	1,344,432
L. Geoffrey Barlow, CFO <sup>(3)</sup>	18	502,500	376,875	75,375	764,947	116,151	1,835,848

## Notes:

- (1) Bonus amounts assume target bonus was achieved. Actual payments are based on an average of bonuses received over a three year trailing period.
- (2) On the effective date of the change of control, any unvested share unit awards (as defined below) and Options vest and become payable or exercisable, respectively. The amounts shown in the table include the value of unvested share unit awards and in-the-money value of Options held by the NEO's which have been calculated based on the closing price of the Common Shares on the TSX on December 31, 2014 of \$30.21 in the case of the share unit awards and the difference between the market price of the Common Shares on the TSX on December 31, 2014 and the exercise price of the Options on December 31, 2014 in the case of the Options. The value of the share unit awards includes dividend equivalents.
- (3) Mr. Barlow retired from the Company effective February 24, 2015.

### Directors' Compensation

Except as described below, the directors receive an annual retainer of \$30,000 with no additional compensation provided for attending meetings of the Board or any meetings of a committee of the Board. The Chair of the Board receives additional compensation of \$20,000 per year, the Chair of the Audit Committee receives additional compensation of \$15,000 per year and the Chairs of the Governance and Compensation Committee and Reserves Committee each receive additional compensation of \$10,000 per year.

The Company has adopted a deferred share unit plan (the "**DSU Plan**") for its directors. Except as described below, directors, except for the Chair of the Board, are expected to receive an annual grant of deferred share units ("**DSUs**") with a grant date fair market value of \$100,000, with the Chair of the Board receiving an annual grant of DSUs with a grant date fair market value of \$150,000. This fair market value will be prorated for any partial year, except for the initial grant of DSUs to the directors made upon closing of the Initial Public Offering. Newly appointed or elected directors receive their initial grant of DSUs upon or after joining the Board, unless the Company is under a trading blackout at such time. In cases where trading blackouts exist, the annual DSU grant (or initial DSU grant for newly appointed or elected directors) is postponed until after the trading blackout is lifted. Prior to the start of each year, the Company's directors are able to elect to take all or a portion of their annual retainer and any additional compensation in the form of DSUs. DSUs will vest once they are credited to the director's DSU account and may only be redeemed after the director ceases to be a director of the Company. When a dividend is paid on Common Shares, if any, each director's DSU account will be allocated additional DSUs equal in value to the dividend paid on an equivalent number of Common Shares. When a director ceases to be a director of the Company, by December 15 of the first calendar year following the year that the directorship ceased, a director will be entitled to request redemption of the DSUs following which the value of the redeemed DSUs will be paid to the director in cash on an after-tax basis. The value of the DSUs on any particular date will be calculated by multiplying the number of DSUs in the director's DSU account by the then market value of a Common Share.

The following table sets forth information concerning the annualized compensation paid to the directors during 2014. Mr. Phillips, the CEO, is not included in the following table as he will not receive any compensation (including an annual retainer or grant of DSUs) for serving as a director of the Company.

Mrs. Brillon did not receive any compensation (including an annual retainer or grant of DSUs) for serving as a director of the Company, as she was a senior executive of Encana Corporation and was therefore not "independent" within the meaning of NI 58-101.

Name	Fees Earned \$ <sup>(1)(2)</sup>	Share-based awards (\$) <sup>(3)</sup>	Non-equity incentive plan compensation (\$)	All other compensation (\$)	Total (\$)
James M. Estey	60,000	150,000	-	-	210,000
Sherri Brillon <sup>(4)(8)</sup>	-	-	-	-	-
Margaret A. McKenzie <sup>(5)</sup>	-	-	-	-	-
Brian G. Shaw <sup>(6)(8)</sup>	30,000	100,000	-	-	130,000
Sheldon B. Steeves	40,000	100,000	-	-	140,000
Bruce G. Waterman <sup>(7)(8)</sup>	45,000	100,000	-	-	145,000
Grant A. Zawalsky <sup>(5)</sup>	-	-	-	-	-

Notes:

- (1) Represents the director's annualized retainer and Chair fees for the 2014 calendar year. No additional compensation was provided for attending meetings of the Board or any meetings of a committee of the Board. Directors are able to elect to receive all or a portion of their annual retainer and Chair fees in the form of DSUs.
- (2) Mr. Estey is the Chair of the Board and the Chair of the Governance and Compensation Committee, Ms. McKenzie is the Chair of the Audit Committee and Mr. Steeves is the Chair of the Reserves Committee.
- (3) Represents the fair market value of the DSUs awarded to the director under the DSU Plan following the closing of the Initial Public Offering (not including DSUs which a director elected to receive as part of his or her annual retainer and any additional cash compensation). These DSUs vested entirely at the time of grant. The DSU compensation expense is accounted for on a fair value basis in accordance with IFRS.
- (4) Ms. Brillon resigned as a director of the Company on September 30, 2014.
- (5) Ms. McKenzie and Mr. Zawalsky were appointed to the Board on December 19, 2014.
- (6) Mr. Shaw resigned as a director of the Company on December 19, 2014.
- (7) Mr. Waterman resigned as a director of the Company on December 19, 2014. Prior thereto, Mr. Waterman was the chair of the Audit Committee.
- (8) Ms. Brillon and Messrs. Shaw and Waterman were each nominees of Encana Corporation under the terms of the Governance Agreement. On September 26, 2014, the Governance Agreement was terminated in accordance with its terms.

#### *Director Outstanding Share-Based Awards*

The following table sets forth, for each director, except for Mr. Phillips, all share-based awards that were outstanding as of December 31, 2014. Mr. Phillips is not included in the following table as he did not receive any compensation for serving as a director of the Company. Ms. Brillon did not receive any share-based awards for serving as a director of the Company as she was a senior executive of Encana Corporation and was therefore not "independent" within the meaning of NI 58-101. No option-based awards have been granted to any directors of the Company.

Name	Share-based awards		
	Number of DSUs that have not vested (#) <sup>(1)</sup>	Market value of DSUs that have not vested \$ <sup>(1)</sup>	Market value of vested DSUs not paid out \$ <sup>(2)(3)</sup>
James M. Estey	-	-	210,000
Sherri Brillon <sup>(4)(8)</sup>	-	-	-
Margaret A. McKenzie <sup>(5)</sup>	-	-	-
Brian G. Shaw <sup>(6)(8)</sup>	-	-	130,000
Sheldon B. Steeves	-	-	140,000
Bruce G. Waterman <sup>(7)(8)</sup>	-	-	145,000
Grant A. Zawalsky <sup>(5)</sup>	-	-	-

## Notes:

- (1) All DSUs awarded under the DSU Plan during 2014 vested on the date of closing of the Initial Public Offering.
- (2) Represents market value of the DSUs on the date of grant as of the date of the Initial Public Offering.
- (3) All Directors elected to receive the entirety of their 2014 annual Board and Committee fees in the form of DSUs at closing of the Initial Public Offering.
- (4) Ms. Brillon resigned as a director of the Company on September 30, 2014.
- (5) Ms. McKenzie and Mr. Zawalsky were appointed to the Board on December 19, 2014.
- (6) Mr. Shaw resigned as a director of the Company on December 19, 2014.
- (7) Mr. Waterman resigned as a director of the Company on December 19, 2014.
- (8) Ms. Brillon and Messrs. Shaw and Waterman were each nominees of Encana Corporation under the terms of the Governance Agreement. On September 26, 2014, the Governance Agreement was terminated in accordance with its terms.

**Director Share-Based Awards — Value Vested or Earned**

The following table sets forth for each director, except for Mr. Phillips and Ms. Brillon as they did not receive any compensation for serving as a director of the Company, the value of share-based awards which vested during the year ended December 31, 2014. No option-based awards have been granted to the directors of the Company.

Name	Share-based awards – Value vested during the year <sup>(1)</sup> (\$)
James M. Estey	231,668
Sherri Brillon <sup>(2)(6)</sup>	-
Margaret A. McKenzie <sup>(3)</sup>	-
Brian G. Shaw <sup>(4)(6)</sup>	143,418
Sheldon B. Steeves	154,445
Bruce G. Waterman <sup>(5)(6)</sup>	159,974
Grant A. Zawalsky <sup>(3)</sup>	-

## Notes:

- (1) Represents the market price of the Common Shares on the TSX on December 31, 2014 of \$30.21 multiplied by the number of DSUs (including dividend entitlements).
- (2) Ms. Brillon resigned as a director of the Company on September 30, 2014.
- (3) Ms. McKenzie and Mr. Zawalsky were appointed to the Board on December 19, 2014.
- (4) Mr. Shaw resigned as a director of the Company on December 19, 2014.

- (5) Mr. Waterman resigned as a director of the Company on December 19, 2014.
- (6) Ms. Brillon and Messrs. Shaw and Waterman were each nominees of Encana Corporation under the terms of the Governance Agreement. On September 26, 2014, the Governance Agreement was terminated in accordance with its terms.

## Directors Insurance and Indemnification

The Company maintains liability insurance for its directors and officers with coverage and terms that are customary for a company of its size in the industry in which it operates. In addition, the Company has entered into indemnification agreements with its directors and officers. The indemnification agreements generally require that the Company indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, if the indemnitees acted honestly and in good faith with a view to the best interests of the Company and, with respect to criminal or administrative actions or proceedings that are enforced by monetary penalty, if the indemnitee had no reasonable grounds to believe that his or her conduct was unlawful. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

## Incentive Award Programs

### Option Plan

The Company has adopted an option plan (the "**Option Plan**") for its employees, including management. Directors of the Company are not eligible to participate in the Option Plan. The purpose of the Option Plan is to foster a proprietary interest in the Company and provide a long-term incentive element in the overall compensation of management and eligible employees. The Option Plan is administered by the Board (which may delegate its authority to the Governance and Compensation Committee or other committee), which has authority to interpret the Option Plan, including in respect of any Options granted thereunder.

Options to purchase Common Shares ("**Options**") are granted under the Option Plan from time to time to eligible employees. Pursuant to the Option Plan, the maximum number of Common Shares that may be issued pursuant to the exercise of Options granted under the Option Plan is limited, in the aggregate, to 10% of the issued and outstanding Common Shares (on a non-diluted basis) at any time, less the number of Common Shares reserved for issuance at such time pursuant to any other security based compensation arrangement of the Company (including the Amended Incentive Plan, if approved by shareholders). Provided that such maximum number of Common Shares is not exceeded, following the exercise, expiration, cancellation or other termination of any Options under the Option Plan, a number of Common Shares equal to the number of Options or rights so exercised, expired, cancelled or terminated shall automatically become available for issuance in respect of Options that may subsequently be granted under the Option Plan.

Pursuant to the Option Plan, the maximum number of Common Shares that may be issued to insiders of the Company under the Option Plan is 10% of the total issued and outstanding Common Shares (calculated on a non-diluted basis) at the date of grant, less the aggregate number of Common Shares reserved for issuance to insiders under any other security based compensation arrangement of the Company (the "**Aggregate Insider Option Limit**"). The maximum number of Common Shares that may be issued to any individual holder under the Option Plan is 5% of the number of issued and outstanding Common Shares (calculated on a non-diluted basis) at the date of grant, less the aggregate number of Common Shares reserved for issuance to such holder under any other security based compensation arrangement of the Company (the "**Individual Option Limit**"). In addition, the maximum number of Common Shares that may be issued to any one insider of the Company under the Option Plan within a one year period is the Individual Option Limit, excluding Common Shares issued to the insider under the Option Plan or any other securities based compensation arrangement during the preceding one year period, and the maximum number of Common Shares that may be issued to insiders of the Company

under the Option Plan within a one year period is the Aggregate Insider Option Limit, excluding Common Shares issued to insiders of the Company under the Option Plan or any other securities based compensation arrangement during the preceding one year period.

Under the Option Plan, the Board has the power to determine the time or times when Options will be granted, vest and become exercisable (including in connection with any Transaction, as described below). The Option Plan provides that the expiry date of an Option will be no more than the date which is five years from the date of grant of such Option. However, if the original expiry date of an Option occurs during, or within 10 business days of the end of, a Company-imposed securities trading blackout applicable to a holder of Options, then the expiry date is extended to be the 10<sup>th</sup> business day after the expiry of the blackout period. Although not prescribed in the Option Plan, except in certain circumstances, the Board is expected to provide for gradual vesting periods for each grant of Options, in proportions determined by the Board, with the first portion vesting on the date that is one year after the date of grant, another portion vesting on the second anniversary of the date of grant and a final portion vesting on the third anniversary of the date of grant. The exercise price of an Option must be no less than the closing price of the Common Shares on the TSX on the last business day preceding the date on which the Options is approved by the Board (or where the approval occurs during a blackout period, the tenth business day after the expiry of the blackout period).

If the Company completes any merger, amalgamation, arrangement, business combination or sale of all or substantially all of its assets and undertaking, or is the subject of a take-over bid, or participates in any similar transaction (any of the foregoing referred to as a "**Transaction**"), and as a result of such Transaction the holders of Common Shares receive securities of another issuer (the "**Continuing Entity**") in full substitution or replacement for the Common Shares ("**Replacement Securities**"), the Options will be adjusted so that the holder would receive such number of Replacement Securities as he or she would have received as a result of such Transaction if the holder had exercised his or her Options to purchase Common Shares prior to the completion of the Transaction and had held such Common Shares on the effective date of such Transaction. However, if: (i) the Continuing Entity does not (or, upon the occurrence of the Transaction, will not) substitute or replace, or the nature of the Transaction does not provide for the full substitution or replacement of, the securities issuable upon the exercise of Options outstanding under the Option Plan on the above described terms; (ii) the Board determines, acting reasonably, that such substitution or replacement is not practicable or impairs or does not substantially preserve the rights of the holders of Options; (iii) the Board determines, acting reasonably, that such substitution or replacement would give rise to adverse tax results to holders of Options; or (iv) the Replacement Securities are not (or, upon the occurrence of the Transaction, will not be) listed and posted for trading on a recognizable stock exchange; the outstanding Options will become fully vested and may be exercised by the holder prior to, but conditional upon the consummation of, the Transaction. Any Options that have not been exercised will be forfeited and cancelled without compensation to the holder thereof upon the consummation of such Transaction. If for any reason such Transaction is not consummated, any Common Shares purchased by the Option holder upon the exercise of an Option for the purposes of participating in the Transaction or whose vesting has been accelerated pursuant to these provisions will be cancelled and returned to the Company, will be added back to the number of Common Shares, if any, remaining unexercised under the Option, and the Company will refund to the Option holder all consideration paid by it to exercise those Options.

The Option Plan contains standard adjustment and anti-dilution provisions for changes in the capital structure of the Company.

Additionally, the Option Plan contains a "cashless exercise" feature, which provides that, unless the Board determines otherwise at any time, an Option holder may elect to exercise an Option by surrendering such Option in exchange for the issuance of Common Shares equal to the number determined by dividing (i) the difference between the market price on the date of exercise and the exercise price of such Option by (ii) the market price of the Common Shares at the date of exercise. If a holder utilizes this "cashless exercise" feature, the full number of Common Shares underlying the Options exercised will be deducted from the number of Common Shares reserved for issuance under the plan.



An Option is personal to the holder and is non-transferable and non-assignable. The Option Plan does not provide for or contemplate the provision of financial assistance to facilitate the exercise of Options and the issuance of Common Shares. If the employment of an Option holder with the Company is terminated by either party for any reason (other than termination for just cause or, generally, the voluntary resignation of the holder, in which cases the Options expire immediately upon the holder ceasing to provide active services to the Company), the Options held by such individual must be exercised within 60 days of such termination, following which the Options will expire. Also, if the employment of an Option holder with the Company is terminated by reason of death, disability or retirement, unless determined by the Board otherwise, all outstanding Options held by such holder will become fully vested and may be exercised by the holder or his or her personal representative at any time after termination date but prior to the expiry date of such Option.

The Option Plan states that the Board may, at any time without the approval of the shareholders and the holders of any other voting securities of the Company, suspend, discontinue or amend the Option Plan or any Option. However, the Board may not, without the approval of a majority of the shareholders and the holders of other voting securities of the Company, amend the Option Plan or an Option to: (i) increase the number of Common Shares, or the percentage of the issued and outstanding Common Shares, issuable pursuant to the Option Plan; (ii) make any amendment that would reduce the exercise price of an outstanding Option (including a cancellation and reissue of an Option that constitutes a reduction of the exercise price); (iii) extend the expiry date of any Option granted under the Option Plan beyond the expiry date of the Option determined at the date of grant, except as provided for with respect to an expiry date that occurs during a blackout period, as described above; (iv) expand the categories of individuals who are eligible to participate in the Option Plan; (v) amend the Option Plan to permit the transfer or assignment of Options, except to permit a transfer to a family member, an entity controlled by the holder of the Options or a family member, a charity, or for estate planning or estate settlement purposes; or (vi) amend the amendment provisions of the Option Plan; in each case unless the change to the Option Plan or an Option results from the application of provisions in the Option Plan relating to mergers, business combinations, take-over bids or similar transactions or to the anti-dilution provisions.

As at March 20, 2015, Options to purchase 763,010 Common Shares were outstanding (approximately 0.3% of the issued and outstanding Common Shares). As a result, pursuant to the Option Plan and prior to the approval of the Amended Incentive Plan, the Company can grant Options to purchase up to an additional 14,170,305 Common Shares. If the Amended Incentive Plan is approved by shareholders at the Meeting, the maximum number of Common Shares that may be issued pursuant to the exercise of outstanding Options and share unit awards is limited, in the aggregate, to 10% of the issued and outstanding Common Shares (on a non-diluted basis). If the Amended Incentive Plan is approved by shareholders at the Meeting, the Company will be able to grant Options and share unit awards pursuant to which, in aggregate, an additional 13,820,273 Common Shares may be issued.

Options granted to the Named Executive Officers in 2014 represent approximately 25% of the grant date value of their annual long-term incentives grant. The grant date value of Options granted to the Named Executive Officers in the 2014 fiscal year is included under the "*Option-Based Awards*" column in the Summary Compensation Table.

### *Incentive Plan*

The Company has adopted the Incentive Plan for its employees, including management. The purpose of the Incentive Plan is to align the interests of the employees with those of shareholders and to assist the Company in attracting and retaining the talent it requires. The Incentive Plan is administered by the Board (which may delegate its authority to the Governance and Compensation Committee or other committee), which has authority to interpret the Incentive Plan, including any questions in respect of any restricted share units ("**RSUs**") or performance share units ("**PSUs**") (the RSUs and PSUs are collectively referred to herein as "**share unit awards**") granted thereunder. The Board has the authority to amend or terminate the Incentive Plan at any time, in whole or in part, subject to certain exceptions. The share unit awards granted thereunder are not assignable.

Share unit awards initially have a notional value equivalent to the value of a Common Share. RSUs vest and are paid out no more than three years from the date of the grant, provided the recipient remains employed with the Company on such date, and subject to certain other events described below. No payment may be made upon settlement of the RSUs on a date following the Outside Date. Upon vesting, each RSU will be paid out in cash (or if the amendments to the Incentive Plan are approved at the Meeting, cash or Common Shares at the election of the Governance and Compensation Committee) and if paid in cash, will have a value equal to the five day weighted average trading price for the Common Shares immediately prior to the vesting date. If the Amendments are approved by shareholders at the Meeting and the Governance and Compensation Committee elects to pay out the RSUs in Common Shares, the Company will issue the number of fully paid and non-assessable Common Shares underlying such share unit awards subject to adjustments for dividends (as described below) and other corporate actions.

PSUs also vest and are paid out no more than three years after the date of the grant, provided the recipient remains employed with the Company on such date, and subject to certain other events described below. No payment may be made upon settlement of the PSUs on a date following the Outside Date. At the time of payout, the Board will apply a "payout multiplier" to the PSU grant which may increase or decrease the amount of the payout relative to the target award. The payout multiplier may range from zero to 2.0 and will be determined by the Board, in its sole discretion, based on the Company's performance, relative to a performance target set at the time of grant, over the vesting period. Upon vesting, each PSU will be paid out in cash (or if the amendments to the Incentive Plan are approved at the Meeting, cash or Common Shares at the election of the Governance and Compensation Committee) and if paid in cash will have a value equal to the five-day weighted average trading price for the Common Shares immediately prior to the vesting date, as adjusted for the payout multiplier. If the Amendments are approved by shareholders at the Meeting and the Governance and Compensation Committee elects to pay out the PSUs in Common Shares, the Company will issue the number of fully paid and non-assessable Common Shares underlying such share unit awards subject to adjustments for dividends (as described below) and other corporate actions.

Payouts of vested share unit awards will also include consideration for dividends paid on the Common Shares over the vesting period by notionally reinvesting the dividends in the share unit awards. All share unit awards which do not vest will be forfeited and cancelled.

Under the Incentive Plan, in case of an employee's retirement, death or disability, the Company will make a payment to such employee or his or her legal representatives in respect of share unit awards held by the employee equal to the target amount of any such share unit awards at the date of grant. In addition, if an employee's employment is terminated by reason of voluntary resignation or for just cause, all awards granted to such employee under the Incentive Plan will be terminated and all rights to receive payments thereunder will be forfeited by the employee. If an employee's employment is terminated by the Company without just cause, the employee will only be entitled to payments in respect to such share unit awards for which the vesting date occurs prior to the termination date of employment. These provisions are subject to any alternative arrangements that may be contained in a separate grant agreement or employment agreement between the Company and a particular employee.

If the Company completes a Transaction, and as a result of such Transaction the holders of Common Shares receive Replacement Securities of a Continuing Entity in full substitution or replacement for the Common Shares, all share unit awards will remain outstanding with appropriate adjustments made to (i) the number of Replacement Securities notionally underlying the share unit awards held by each holder, and (ii) dividends paid on the Common Shares (as replaced by the Replacement Securities) during the term of such share unit awards, in each case to appropriately account for, and provide economic equivalence based on, the exchange ratio of Replacement Securities issued for Common Shares. In addition, following any Transaction where the share unit awards remain outstanding, the minimum payout multiplier applicable to those share unit awards upon vesting will be 1.0. However, if: (i) the Continuing Entity does not (or, upon the occurrence of the Transaction, will not) substitute or replace, or the nature of the Transaction does not provide for the full substitution or replacement of, the Common Shares with

Replacement Securities on the above described terms; (ii) the Board determines, acting reasonably, that such substitution or replacement is not practicable or does not substantially preserve the rights of the holders of share unit awards; (iii) the Board determines, acting reasonably, that such substitution or replacement would give rise to adverse tax results to holders of share unit awards; or (iv) the Replacement Securities are not (or, upon the occurrence of the Transaction, will not be) listed and posted for trading on a recognizable stock exchange; then the holder will receive a cash payment in respect of all outstanding share unit awards in respect of which payment has not been made (whether or not otherwise vested or payable), conditional upon the Transaction being completed. Such cash payment will be based on the market value of the Common Shares on the effective date of the Transaction and, in the case of PSUs, be adjusted for the payout multiplier factor based on the performance period ended on the effective date of the Transaction, and, in the case of PSUs and RSUs, taking into account dividends declared by the Company up to the effective date of the Transaction.

Pursuant to the terms of the Incentive Plan, the Board may, at any time, without the approval of the shareholders suspend, discontinue or amend the Plan or a Share Unit Award made thereunder provided that unless a holder of share unit awards otherwise agrees, the Board may not suspend, discontinue or amend the Incentive Plan or amend any outstanding share unit award in a manner that would adversely alter or impair any share unit award previously granted to such holder.

If the Amended Incentive Plan is approved by shareholders at the Meeting, and subject to the consent of the applicable holder of outstanding share unit awards, the Amended Incentive Plan will govern the terms of all currently outstanding share unit awards. The material terms of the Amended Incentive Plan are the same as the Incentive Plan save and except for the amendments described under the heading "*Matters to be Acted upon at the Meeting - Amendments to the Incentive Plan*".

During the 2014 calendar year PSUs and RSUs granted to the Named Executive Officers represented 50% and 25%, respectively, of the grant date value of their annual long-term incentives grant. The grant date value of PSUs and RSUs granted to the Named Executive Officers in fiscal 2014 is included under the "*Share-Based Awards*" column in the Summary Compensation Table.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following sets forth information in respect of securities authorized for issuance under PrairieSky's equity compensation plans as at December 31, 2014:

Plan Category	# of Common Shares to be issued upon exercise of outstanding rights	% of total Common Shares to be issued upon exercise of outstanding rights	Weighted average exercise price of outstanding rights (\$)	# of available Common Shares available for future issuance under equity compensation plans	% of Common Shares available for future issuance under equity compensation plans
Equity compensation plans approved by securityholders:	-	-	-	-	-
Equity compensation plans not approved by securityholders	-	-	-	-	-
Option Plan <sup>(1)</sup>	511,506	0.3%	29.01	14,421,343	97%

Notes:

- (1) As at December 31, 2014, there were Options to purchase 511,506 Common Shares granted under the Option Plan with an average exercise price of \$29.01 and a weighted average remaining term of 4.43 years. As at March 20, 2015, there were Options to purchase 763,010 Common Shares outstanding under the Option Plan with an average exercise price of \$29.80 and a weighted average remaining term of 4.51 years.
- (2) If the Amended Incentive Plan is approved by shareholders at the Meeting, an aggregate of 10% of the outstanding Common Shares will be issuable under the Option Plan and the Incentive Plan, collectively. As at December 31, 2014,

there were 180,066 Common Shares issuable pursuant to outstanding share unit awards pursuant to the Incentive Plan. As at March 20, 2015, there were 350,032 Common Shares issuable pursuant to outstanding share unit awards (assuming the Amended Incentive Plan is approved by shareholders).

- (3) The total dilution from our long-term incentive plans is limited to 10% of the outstanding Common Shares.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of any Informed Person of the Company (as defined in NI 51-102) or proposed director or any known associate or affiliate of such persons, in any transaction since the commencement of our last completed financial year or in any proposed transaction that has materially affected or would materially affect us or any of our subsidiaries.

## INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON

Management of the Company is not aware of any material interest of any director or executive officer or anyone who has held office as such since the beginning of our last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the meeting, save as is disclosed herein.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this information circular and proxy statement, including statements related to the Company's expectations of implementing the stock dividend program and the potential benefits to the Company and shareholders in respect thereof and statements that contain words such as "could", "should", "anticipate", "expect", "will", "may" and similar expressions and statements relating to matters that are not historical facts may constitute forward-looking statements. These statements are based on certain assumptions and analysis made by PrairieSky in light of its experience and its perception of historical trends and expected future developments as well as other factors it believes are appropriate in the circumstances. Whether actual results, performance or achievements will conform to PrairieSky's expectations is subject to a number of known and unknown risks and uncertainties which could cause actual results to differ materially from PrairieSky's expectations.

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, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. The foregoing and other risks are described in more detail in PrairieSky's Management's Discussion and Analysis and Annual Information Form for the period ended December 31, 2014 under the heading "Risk Management" and "Risk Factors", respectively, each of which is available at [www.sedar.com](http://www.sedar.com).

**Further, any forward-looking statement is made only as of the date of this information circular and proxy statement, and PrairieSky undertakes no obligation to update or revise any forward-looking statement 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 statements contained in this information circular and proxy statement is expressly qualified by this cautionary statement.**

## ADDITIONAL INFORMATION

PrairieSky undertakes to provide, upon request, a copy of the year end 2014 financial statements and management's discussion, as well as a copy of the annual information form for 2014, subsequent interim financial statements and this information circular and proxy statement. Our annual information form also contains disclosure relating to our audit committee and the fees paid to KPMG LLP in 2014. Copies of these documents may be obtained on request without charge from PrairieSky Royalty Ltd. at 1900, 411 - 1st Street S.E., Calgary, Alberta ,T2G 4Y5, telephone (403) 293-4000 or our website [www.prairiesky.com](http://www.prairiesky.com) or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at [www.sedar.com](http://www.sedar.com).

## OTHER MATTERS

Management of the Company knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

The contents and the sending of this information circular and proxy statement has been approved by our directors.

Dated: March 20, 2015



**APPENDIX "A"**

**CHANGE OF AUDITOR REPORTING PACKAGE**

**NOTICE OF CHANGE OF AUDITOR**  
Pursuant to NI 51-102 (Part 4.11)

TO: PricewaterhouseCoopers LLP, Chartered Accountants

AND TO: KPMG LLP, Chartered Accountants

AND TO: Alberta Securities Commission  
British Columbia Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorite des marches financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Financial Services Regulation Division, Government of Newfoundland and Labrador  
Superintendent of Securities, Government of Prince Edward Island  
Office of the Yukon Superintendent of Securities, Government of Yukon  
Office of the Superintendent of Securities, Government of Northwest Territories  
Department of Justice, Government of Nunavut

Notice is hereby given, pursuant to section 4.11 of National Instrument 51-102 - Continuous Disclosure Obligations ("**NI 51-102**"), of a change of auditor of PrairieSky Royalty Ltd. (the "**Company**") from PricewaterhouseCoopers LLP (the "**Former Auditor**") to KPMG LLP (the "**Successor Auditor**") effective as of November 4, 2014.

The Former Auditor has resigned as auditor of the Company at the request of the Company. The Audit Committee of the Company has recommended to the Board of Directors of the Company that the Successor Auditor be appointed to fill the vacancy in the office of auditor created by the resignation of the Former Auditor until the next annual meeting of shareholders of the Company.

The Company further reports there were no reservations in the Former Auditor's reports on the company's financial statements for the period commencing at the beginning of the Company's two most recently completed financial years and ending on the date of resignation of the Former Auditor.

There are no reportable events including disagreements, consultations, or unresolved issues as defined in NI 51-102 (Part 4.11) between the Company and the Former Auditor.

The change of the auditor and the recommendation to appoint the Successor Auditor was approved by the Audit Committee and the Board of Directors of the Company.

DATED this 6<sup>th</sup> day of November, 2014.

**PrairieSky Royalty Ltd.**

*"Andrew M. Phillips"*

---

Andrew M. Phillips  
President & Chief Executive Officer





November 6, 2014

KPMG LLP  
2700, 205 – 5<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 4B9

PrairieSky Royalty Ltd.  
Suite 1900, 411 – 1<sup>st</sup> Street SE

P.O Box 780 Station M  
Calgary, Alberta T2G 4Y5

To: Alberta Securities Commission  
British Columbia Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorite des marches financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Financial Services Regulation Division, Government of Newfoundland and Labrador  
Superintendent of Securities, Government of Prince Edward Island  
Office of the Yukon Superintendent of Securities, Government of Yukon  
Office of the Superintendent of Securities, Government of Northwest Territories  
Department of Justice, Government of Nunavut

We have read the statements made by PrairieSky Royalty Ltd. in the attached copy of change of auditor notice dated November 6, 2014, which we understand will be filed pursuant to Section 4.11 of National Instrument 51-102.

We agree with the statements in the change of auditor notice dated November 6, 2014.

Yours very truly,

*PricewaterhouseCoopers LLP*  
**Chartered Accountants**

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*PricewaterhouseCoopers LLP*  
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3  
T: +1 403 509 7500, F: +1 403 781 1825, [www.pwc.com/ca](http://www.pwc.com/ca)



**KPMG LLP**  
205 - 5<sup>th</sup> Avenue SW  
Suite 3100, Bow Valley Square 2  
Calgary AB  
T2P 4B9

Telephone (403) 691-8000  
Fax (403) 691-8008  
www.kpmg.ca

Alberta Securities Commission  
British Columbia Securities Commission  
Financial and Consumer Affairs Authority of Saskatchewan  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorite des marches financiers  
Nova Scotia Securities Commission  
New Brunswick Securities Commission  
Financial Services Regulation Division, Government of Newfoundland and Labrador  
Superintendent of Securities, Government of Prince Edward Island  
Office of the Yukon Superintendant of Securities, Government of Yukon  
Office of the Superintendent of Securities, Government of Northwest Territories  
Department of Justice, Government of Nunavut

Dear Sirs/Mesdames:

**Notice of Change of Auditors of PrairieSky Royalty Ltd. (the "Company")**

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We have read the Notice of Change of Auditor dated November 6, 2014 (the "Notice") and are in agreement with the statements contained in such Notice.

Yours very truly,

Chartered Accountants

Calgary, Canada  
November 6, 2014

**APPENDIX "B"**  
**COMMON SHARE TERMS AFTER THE SHARE CAPITAL AMENDMENT**

Common Shares

1. The rights of the holders of Common Shares are equal in all respects and include the following rights:
  - (a) to vote at all meetings of shareholders of the Corporation, except meetings at which only holders of a specified class of shares are entitled to vote;
  - (b) subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Corporation, to receive dividends declared by the Corporation on the Common Shares; and
  - (c) subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution.
  
2. If the Board of Directors of the Corporation declare a dividend on the Common Shares payable in whole or in part in fully paid and non-assessable Common Shares (the portion of the dividend payable in Common Shares being herein referred to as a "**stock dividend**"), the following provisions shall apply:
  - (a) unless otherwise determined by the Board of Directors of the Corporation in respect of a particular stock dividend: (i) the number of Common Shares (which shall include any fractional Common Shares) to be issued in satisfaction of the stock dividend shall be determined by dividing (A) the dollar amount of the particular stock dividend, by (B) 99% of the "Average Market Price" of a Common Share on the Toronto Stock Exchange (the "**TSX**"), with the "Average Market Price" calculated by dividing the total value of Common Shares traded on the TSX by the total volume of Common Shares traded on the TSX over the five trading day period immediately prior to the payment date of the applicable stock dividend on the Common Shares; and (ii) the value of a Common Share to be issued for the purposes of each stock dividend declared by the Board of Directors of the Corporation shall be deemed to be the Average Market Price of a Common Share;
  - (b) to the extent that any stock dividend paid on the Common Shares represents one or more whole Common Shares payable to a registered holder of Common Shares, such whole Common Shares shall be registered in the name of such holder. Common Shares representing in the aggregate all of the fractions amounting to less than one whole Common Share which might otherwise have been payable to registered holders of Common Shares by reason of such stock dividend shall be issued to the transfer agent for the Common Shares as the agent of such registered holders of Common Shares. The transfer agent shall credit to an account for each such registered holder all fractions of a Common Share amounting to less than one whole share issued by the Corporation by way of stock dividends in respect of the Common Shares registered in the name of such holder. From time to time, when the fractional interests in a Common Share held by the transfer agent for the account of any registered holder of Common Shares are equal to or exceed in the aggregate one additional whole Common Share, the transfer agent shall cause such additional whole Common Share to be registered in the name of such registered holder and thereupon only the excess fractional interest, if any, will continue to be held by the transfer agent for the account of such registered holder. The Common Shares held by the transfer agent representing fractional interests shall not be voted;
  - (c) if at any time the Corporation shall have reason to believe that tax should be withheld and remitted to a taxation authority in respect of any stock dividend paid or payable to a

shareholder in Common Shares, the Corporation shall have the right to sell, or to require its transfer agent in each case as agent of such shareholder, to sell all or any part of the Common Shares or any fraction thereof so issued to such holder in payment of that stock dividend or one or more subsequent stock dividends through the facilities of the TSX or other stock exchange on which the Common Shares are listed for trading, and to cause the transfer agent to remit the cash proceeds from such sale to such taxation authority (rather than such holder) in payment of such tax to be withheld. This right of sale may be exercised by notice given by the Corporation to such holder and to the Corporation or the transfer agent stating the name of the holder, the number of Common Shares to be sold and the amount of the tax which the Corporation has reason to believe should be withheld. Upon receipt of such notice the transfer agent shall, unless a certificate or other evidence of registered ownership for the Common Shares has at the relevant time been issued in the name of the holder, sell the Common Shares as aforementioned and the Corporation or the transfer agent as applicable, shall be deemed for all purposes to be the duly authorized agent of the holder with full authority on behalf of such holder to effect the sale of such Common Shares and deliver the proceeds therefrom to the applicable taxation authority on behalf of the Corporation. Any balance of the cash sale proceeds not remitted by the Corporation in payment of the tax to be withheld shall be payable to the holder whose Common Shares were so sold by the transfer agent;

- (d) if at any time the Corporation shall have reason to believe that the payment of a stock dividend to any holder thereof who is resident in or otherwise subject to the laws of a jurisdiction outside Canada might contravene the laws or regulations of such jurisdiction, or could subject the Corporation to any penalty thereunder or any legal or regulatory requirements not otherwise applicable to the Corporation, the Corporation shall have the right to sell, or to require its transfer agent in each case, as agent of such shareholder, to sell through the facilities of the TSX or other stock exchange on which the Common Shares are listed for trading, the Common Shares or any fraction thereof so issued and to cause the transfer agent to pay the cash proceeds from such sale to such holder. The right of sale shall be exercised in the manner provided in subparagraph (c) above except that in the notice there shall be stated, instead of the amount of the tax to be withheld, the nature of the law or regulation which might be contravened or which might subject the Corporation to any penalty or legal or regulatory requirement. Upon receipt of the notice, the Corporation or the transfer agent shall, unless a certificate or other evidence of registered ownership for the Common Shares has at the relevant time been issued in the name of the holder, sell the Common Shares as aforementioned and the Corporation or the transfer agent, as applicable shall be deemed for all purposes to be the duly authorized agent of the holder with full authority on behalf of such holder to effect the sale of such Common Shares and to deliver the proceeds therefrom to such holder;
- (e) upon any registered holder of Common Shares ceasing to be a registered holder of one or more Common Shares, such holder shall be entitled to receive from the transfer agent, and the transfer agent shall pay as soon as practicable to such holder, an amount in cash equal to the proportion of the value of one Common Share that is represented by the fraction less than one whole Common Share at that time held by the transfer agent for the account of such holder, and, for the purpose of determining such value, each Common Share shall be deemed to have the value equal to the Average Market Price in respect of the last stock dividend paid by the Corporation prior to the date of such payment; and
- (f) for the purposes of the foregoing: (i) the calculation of a fraction of a Common Share payable to a shareholder by way of a stock dividend and the calculation of the Average Market Price shall be computed to six decimal places, and shall be rounded to the nearest sixth decimal place; and (ii) neither the Corporation nor its transfer agent shall have any obligation to register any Common Share in the name of a person, to deliver a

certificate or other document representing Common Shares registered in the name of a shareholder or to make a cash payment for fractions of a Common Share, unless all applicable laws and regulations to which the Corporation and/or the transfer agent are, or as a result of such action may become, subject, shall have been complied with to their reasonable satisfaction.

## APPENDIX "C"

### CANADIAN INCOME TAX CONSIDERATIONS IN RESPECT OF PARTICIPATION IN THE STOCK DIVIDEND PROGRAM

**This summary is of a general nature only and is not intended to be nor should it be construed to be tax advice to any particular shareholder.**

**This summary is not exhaustive of all Canadian federal income tax considerations, or of any tax considerations relevant to any other jurisdiction.** Shareholders are encouraged to consult their own tax advisors regarding the tax consequences to them of receiving cash or stock dividends. Capitalized terms used in this Appendix "C" and not otherwise defined have the meaning ascribed thereto in our information circular and proxy statement dated March 20, 2015 (the "**Information Circular**").

#### **Canadian Federal Income Tax Considerations**

The following is, as of the date of the Information Circular, a summary of the principal Canadian federal income tax considerations generally applicable under the *Income Tax Act* (Canada) (the "**Tax Act**") to common shareholders who: (i) for purposes of the Tax Act, deal at arm's length and are not affiliated with us; (ii) hold their common shares as capital property; and (iii) participate in the stock dividend program by delivering a valid Stock Dividend Enrolment Form to Equity Financial Trust Company, prior to the Stock Dividend Enrolment Form Deadline, electing to receive all or a portion of any dividends declared by us on the common shares in the form of additional common shares issued by us from treasury (each a "**Participating Holder**"). Common shares will generally be considered capital property to a Participating Holder unless the Participating Holder holds the common shares in the course of carrying on a business of buying and selling securities or acquired the common shares in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is based on the current provisions of the Tax Act, the regulations thereunder, and our understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency. This summary also takes into account all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that the Proposed Amendments will be enacted substantially as proposed. However, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative practice, whether by legislative, regulatory or judicial action or interpretation, nor does it take into account provincial, territorial or foreign income tax considerations.

This summary is not applicable to a Participating Holder: (i) that is a "specified financial institution" (as defined in the Tax Act); (ii) that is a "financial institution" (as defined in the Tax Act) for purposes of the "mark-to-market rules"; (iii) an interest in which is a "tax shelter investment" for the purposes of the Tax Act; (iv) whose functional currency for purposes of the Tax Act is the currency of a country other than Canada; (v) that is exempt from tax under Part I of the Tax Act; or (vi) that has or will enter into a "derivative forward agreement" as defined in the Tax Act in respect of the common shares. Such Participating Holder should consult their own tax advisors having regard to their particular circumstances.

**As discussed below, the receipt of stock dividends will have Canadian income tax consequences that are different from the Canadian income tax consequences applicable to the receipt of cash dividends. There is no assurance that the Canada Revenue Agency or other applicable taxation authorities will not disagree with or challenge the description below of the tax treatment to a Participating Holder who receives stock dividends pursuant to the stock dividend program.**

**This summary is not exhaustive of all possible income tax considerations applicable to participation in the stock dividend program or of the holding of our common shares. Accordingly,**

**this summary is of a general nature only and is not intended to be legal or tax advice to any Participating Holder.**

**The United States tax consequences for Participating Holders who are resident in, or citizens of, the United States are not described herein. Participating Holders should consult their own tax advisors for advice with respect to the tax consequences of participation in the stock dividend program based on their particular circumstances.**

### ***Residents of Canada***

The following portion of this summary is applicable to a Participating Holder who, for the purposes of the Tax Act and any applicable tax treaty or convention and at all relevant times, is resident or deemed to be resident in Canada (a "**Canadian Holder**"). Certain Canadian Holders to whom the common shares would not otherwise constitute capital property may elect, in certain circumstances, to have the common shares, and every "Canadian security" (as defined in the Tax Act) owned by such person in the taxation year of the election and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Persons considering making such election should first consult their own tax advisors.

### *Taxation of Cash Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, Canadian Holders may elect to receive dividends on all or a stated number of their common shares in the form of stock dividends. Canadian Holders who elect to receive only a portion of their dividends as stock dividends will receive the balance of the dividends to which they are entitled as cash dividends. In addition, where our board of directors do not resolve to pay all or a portion of a declared dividend in the form of a stock dividend, Canadian Holders (including Canadian Holders that have delivered a valid Stock Dividend Enrolment Form to receive their dividends in the form of stock dividends) will receive cash dividends.

The amount of any cash dividends will be included in computing a Canadian Holder's income for purposes of the Tax Act in the taxation year of the Canadian Holder in which the cash dividend is received. The amount of such cash dividends received by a Canadian Holder who is an individual will be subject to the gross-up and dividend tax credit rules in the Tax Act normally applicable to taxable dividends paid by taxable Canadian corporations. To the extent that we designate our dividends as "eligible dividends" within the meaning of the Tax Act in the prescribed manner, the amount of such dividends received as cash dividends will be eligible for the enhanced gross-up and dividend tax credit. Cash dividends received by an individual (other than certain specified trusts) may give rise to a liability for minimum tax as calculated under the detailed rules set out in the Tax Act.

The amount of any cash dividends received by a Canadian Holder that is a corporation will normally be deductible in computing such corporation's taxable income. If a Canadian Holder is a "private corporation" (as defined in the Tax Act) or any other corporation resident in Canada and controlled or deemed to be controlled by or for the benefit of an individual or a related group of individuals, the Canadian Holder may be liable under Part IV of the Tax Act to pay a refundable tax of 33 ⅓% on the amount of such cash dividends to the extent that such cash dividends are deductible in computing the Canadian Holder's taxable income.

### *Taxation of Stock Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, provided our board of directors have resolved to pay all or a portion of a declared dividend in the form of a stock dividend, Canadian Holders who have delivered a valid Stock

Dividend Enrolment Form indicating that they will accept all or a portion of the dividends to which they are entitled in the form of stock dividends will receive all or a portion of their dividends as stock dividends.

For the purposes of computing a Canadian Holder's income for purposes of the Tax Act, the amount of a dividend paid in the form of a stock dividend is the amount by which the "paid-up capital" (as defined in the Tax Act) of the shares is increased as a result of the issuance of the Stock Dividend Shares. Generally speaking, the increase in the paid-up capital of the shares is equal to the increase in the stated capital of those shares for corporate law purposes. Under the *Business Corporations Act* (Alberta), the corporate statute governing us, our board of directors is permitted to add any amount (up to the fair market value of the shares issued) to the stated capital of the common shares when additional common shares are issued in payment of a stock dividend. The Canadian Holder's pro-rata share of the amount of the increase in the paid-up capital of the common shares as a result of payment of a stock dividend will be included in computing such Canadian Holder's income for purposes of the Tax Act and will be taxed in the same manner as a cash dividend, as described under the heading " – Taxation of Cash Dividends" above.

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendments – Benefits of the stock dividend program*" in the Information Circular, it is anticipated that our board of directors will add only a nominal amount to the stated capital of the common shares when common shares are issued as payment of a stock dividend. Therefore, it is expected that where a dividend is paid to a Canadian Holder in the form of a stock dividend, the amount of such stock dividend for the purposes of computing a Canadian Holder's income under the Tax Act will be nominal. As a result, it is expected that Canadian Holders will have no material amounts to include in computing their income for the purposes of the Tax Act as a result of receiving a stock dividend. However, as discussed below under the heading " – Disposition of Common Shares", the receipt of a stock dividend may increase a subsequent capital gain (or decrease a subsequent capital loss) recognized by a Canadian Holder on its disposition of common shares.

#### *Disposition of Common Shares*

Upon a disposition or a deemed disposition of a common share, a Canadian Holder will generally recognize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the common share, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the common share to the Canadian Holder.

The cost to a Canadian Holder of a common share received as payment of a stock dividend will be equal to such share's pro-rata portion of the aggregate increase in the paid-up capital of the common shares as a result of the payment of all stock dividends paid to shareholders at that time which, as discussed above, is expected to be nominal. This nominal cost to a Canadian Holder of a common share received as a stock dividend generally will be averaged with the adjusted cost base of all other common shares held at that time by such Canadian Holder as capital property for the purposes of determining the adjusted cost base of each such share to the Canadian Holder.

Since the cost to a Canadian Holder of a common share received as a stock dividend is expected to be nominal, the receipt of common shares as stock dividends may increase a capital gain (or decrease a capital loss) recognized on a subsequent disposition of common shares by a Canadian Holder.

One half of any such capital gain (a "**taxable capital gain**") recognized by a Canadian Holder will be required to be included in computing the Canadian Holder's income, and one half of any such capital loss (an "**allowable capital loss**") recognized by a Canadian Holder must generally be deducted against taxable capital gains recognized by the Canadian Holder in the year of disposition. Allowable capital losses not deductible in the taxation year in which they are recognized may ordinarily be deducted by the Canadian Holder against taxable capital gains recognized in any of the three preceding taxation years or any subsequent taxation year, subject to the detailed rules contained in the Tax Act in this regard. Capital gains recognized by an individual (other than certain specified trusts) may be subject to minimum tax.



If the Canadian Holder is a corporation, the amount of any capital loss otherwise recognized on the disposition or deemed disposition of a common share by the Canadian Holder may be reduced by the amount of dividends received or deemed to have been received by the Canadian Holder on such common share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply where a corporation is a member of a partnership or beneficiary of a trust that owns common shares, or where a partnership or trust of which a corporate Holder is a member or beneficiary is itself a member of a partnership or a beneficiary of a trust that owns common shares.

If the Canadian Holder is a "Canadian-controlled private corporation" (as defined in the Tax Act), the Canadian Holder may also be liable to pay a 6  $\frac{2}{3}$ % refundable tax on certain investment income, including taxable capital gains.

### ***Non-Residents of Canada***

The following section summarizes the principal Canadian federal income tax considerations generally applicable to a Participating Holder if: (i) at all relevant times, for purposes of the Tax Act and any applicable tax treaty or convention, the Participating Holder is not resident and is not deemed to be resident in Canada; (ii) the Participating Holder does not use or hold (and will not use or hold) and is not deemed to use or hold the common shares in, or in the course of, carrying on a business in Canada and does not carry on an insurance business in Canada and elsewhere; and (iii) the Participating Holder's common shares do not constitute "taxable Canadian property" for purposes of the Tax Act (see discussion in the following paragraph) (a "**Non-Resident Holder**").

Provided that the common shares are listed on a designated stock exchange (which includes the Toronto Stock Exchange) at a particular time, the common shares generally will not constitute taxable Canadian property to a Non-Resident Holder at that time unless at any time during the five year period immediately preceding that time 25% or more of the issued shares of any class or series of the our capital stock were owned by the Non-Resident Holder, by persons with whom the Non-Resident Holder did not deal at arm's length or by the Non-Resident Holder and any such persons. A Non-Resident Holder's common shares can also be deemed to be taxable Canadian property in certain other circumstances set out in the Tax Act.

### ***Taxation of Cash Dividends***

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, Non-Resident Holders may elect to receive dividends on all or a stated number of their common shares in the form of stock dividends. Non-Resident Holders who elect to receive only a portion of their dividends as stock dividends will receive the balance of the dividends to which they are entitled as cash dividends. In addition, where our board of directors do not resolve to pay all or a portion of a declared dividend in the form of a stock dividend, Non-Resident Holders (including Non-Resident Holders that have delivered a valid Stock Dividend Enrolment Form to receive their dividends in the form of stock dividends) will receive cash dividends.

Cash dividends on the common shares paid or credited or deemed under the Tax Act to be paid or credited to a Non-Resident Holder generally will be subject to Canadian withholding tax at the rate of 25%, subject to any applicable reduction in the rate of such withholding under an income tax treaty between Canada and the country where the Non-Resident Holder is resident. For example, under the Canada-United States Income Tax Convention (1980) (the "**Treaty**"), the withholding tax rate in respect of a cash dividend paid to a person who is the beneficial owner of the cash dividend and is resident in the United States for purposes of, and entitled to full benefits under, the Treaty, is generally reduced to 15%.

Under the Treaty, cash dividends paid to certain religious, scientific, literary, educational or charitable tax exempt organizations and certain pension organizations that are resident, and exempt from tax, in the United States are exempt from Canadian withholding tax. Provided that certain administrative procedures are observed regarding registration of such organizations, we will not be required to withhold tax from

cash dividends paid to such organizations. Qualifying organizations that fail to follow the required administrative procedures will have to file a claim for refund with the Canada Revenue Agency in order to recover any amounts withheld. Such organizations are advised to consult their own tax advisors.

#### *Taxation of Stock Dividends*

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendment to Implement Stock Dividend Program – Procedure to Confirm Acceptance of Stock Dividends*" in the Information Circular, provided our board of directors have resolved to pay all or a portion of a declared dividend in the form of a stock dividend, Non-Resident Holders who have delivered a valid Stock Dividend Enrolment Form indicating that they will accept all or a portion of the dividends to which they are entitled in the form of stock dividends will receive all or a portion of their dividends as stock dividends.

For the purposes of computing the Canadian withholding tax applicable to a stock dividend received by a Non-Resident Holder, the amount of a stock dividend is determined in the same manner as the determination of the amount of a stock dividend for the purposes of computing the income of a Canadian Holder. In other words, the amount of the stock dividend is the amount by which the "paid-up capital" (as defined in the Tax Act) of the shares is increased as a result of the issuance of the Stock Dividend Shares. Generally speaking, the increase in the paid-up capital of the shares is equal to the increase in the stated capital of those shares for corporate law purposes. Under the *Business Corporations Act* (Alberta), the corporate statute governing us, our board of directors is permitted to add any amount (up to the fair market value of the shares issued) to the stated capital of the common shares when additional common shares are issued in payment of a stock dividend. The Non-Resident Holder's *pro rata* share of the amount of the increase in the paid-up capital of the common shares as a result of payment of a stock dividend (which, as noted above, is expected to be nominal) will be subject to Canadian withholding tax in the same manner as a cash dividend, as described under the heading "*– Taxation of Cash Dividends*" above.

As discussed under the heading "*Matters to be Acted Upon at the Meeting – Approval of Share Capital Amendments – Benefits of the Stock Dividend Program*" in the Information Circular, it is anticipated that our board of directors will add only a nominal amount to the stated capital of the common shares when common shares are issued as payment of a stock dividend. Therefore, it is expected that where a dividend is paid to a Non-Resident Holder in the form of a stock dividend, the amount of such stock dividend for the purposes of computing the Canadian withholding tax applicable to a stock dividend received by such Non-Resident Holder will be nominal. As a result, it is expected that stock dividends paid to Non-Resident Holders will not be subject to any material amounts of Canadian withholding tax.

#### *Disposition of Common Shares*

A Non-Resident Holder will generally not be subject to tax under the Tax Act in respect of any capital gain recognized on the disposition of common shares so long as the common shares are not "taxable Canadian property", for purposes of the Tax Act, in the hands of such Non-Resident Holder. **Non-Resident Holders should consult with their own tax advisors to determine whether a disposition of common shares will be subject to tax in their own relevant jurisdiction.**

## APPENDIX "D"

### PRAIRIESKY ROYALTY LTD.

#### BOARD OF DIRECTORS' MANDATE

The fundamental responsibility of the board of directors (the "**Board**") of PrairieSky Royalty Ltd. (the "**Company**") is to appoint a competent senior management team and to oversee the management of the business and affairs of the Company, with a view to maximizing shareholder value and ensuring corporate conduct in an ethical and legal manner via an appropriate system of corporate governance and internal controls. In carrying out its mandate, the Board shall:

##### *Senior Management Responsibility*

- Appoint the President & Chief Executive Officer ("**CEO**") and members of senior management of the Company, approve their compensation, and monitor the CEO's performance against a set of mutually agreed corporate objectives directed at maximizing shareholder value.
- In conjunction with the CEO, develop a clear mandate for the CEO, which includes a delineation of senior management's responsibilities.
- Ensure that a process is established that adequately provides for succession planning, including appointing, training and monitoring of senior management.
- Establish limits of authority delegated to senior management.

##### *Operational Effectiveness and Reporting*

- Annual review and adoption of a strategic planning process and approval of the corporate strategic plan, which takes into account, among other things, the opportunities and risks of the Company's business.
- Ensure that a system is in place to identify the principal risks to the Company and that the best practical procedures are implemented to monitor, manage and mitigate the risks.
- Ensure that processes are in place to address applicable regulatory, corporate, securities and other compliance matters.
- Ensure that an adequate system of internal control and management information systems exists.
- Ensure that due diligence processes and appropriate controls are in place with respect to applicable certification requirements regarding the Company's financial, reserves and other disclosure.
- Upon recommendation of the audit committee of the Board, review and approve the Company's financial statements and oversee the Company's compliance with applicable audit, accounting and reporting requirements.
- Upon recommendation of the reserves committee of the Board, review and approve the content and filing of the annual disclosure of the Company's oil and gas activities, including reports and statements required under National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (as implemented by the Canadian Securities Administrators and as amended from time to time).
- Approve annual budgets.

- Review and consider for approval all amendments or departures proposed by senior management from established strategy, budgets or matters of policy which diverge from the ordinary course of business of the Company.
- Review the financial performance results relative to established strategy, budgets and objectives.

#### *Integrity/Corporate Conduct*

- Approve a communications policy or policies to ensure that a system for corporate communications to all stakeholders exists, including processes for consistent, transparent, regular and timely public disclosure, and to facilitate feedback from stakeholders.
- Approve a Business Code of Conduct for directors, officers, employees and contractors, and monitor compliance with the Business Code of Conduct and approve any waivers of the Business Code of Conduct for officers and directors.
- Satisfy itself of the integrity of the CEO and the other members of senior management and that the CEO and other members of senior management create a culture of integrity throughout the organization.

#### *Board Process/Effectiveness*

- Ensure that Board materials are distributed to directors in advance of regularly scheduled meetings to allow for sufficient review of the materials prior to such meetings. Directors are expected to attend all meetings and to review Board materials in advance of each meeting.
- Engage in the process of determining Board member qualifications, with the assistance of the Governance and Compensation Committee, including ensuring that a majority of directors qualify as independent directors within the meaning attributed to such term in National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (as implemented by the Canadian Securities Administrators and as amended from time to time).
- Approve the nomination of directors.
- Provide a comprehensive orientation to each new director.
- Establish an appropriate system of corporate governance, including practices to ensure the Board functions independently of management, as well as developing a set of corporate governance principles and guidelines.
- Establish appropriate practices for the regular evaluation of the effectiveness of the Board, its committees and its members.
- Establish committees and approve their respective mandates and the limits of authority delegated to each committee.
- Review and re-assess the adequacy of the Audit Committee Mandate on a regular basis, but not less frequently than on an annual basis.
- Review the adequacy and form of the directors' compensation to ensure it accurately reflects the responsibilities and risks involved in being a director.
- Each member of the Board is expected to understand the nature of the Company's business, and have an awareness of the political, economic and social trends prevailing in the areas in which the Company invests, or is contemplating potential investment.
- The Board shall meet regularly without the participation of those directors who are members of the Company's management.

- Adhere to all other Board responsibilities as set forth in the Company's articles and by-laws, the Company's Business Code of Conduct and any related policies, practices and guidelines, as approved and implemented by the Board and senior management from time to time, and other statutory and regulatory obligations.
- Miscellaneous

The Board may engage outside resources as deemed advisable.

The Board shall review this mandate on a periodic basis.

This mandate is subject to the terms of the governance agreement between the Company and Encana Corporation dated May 29, 2014, as amended from time to time (the "**Governance Agreement**"). Where a conflict exists between the provisions of this Mandate and the terms of the Governance Agreement, the terms of the Governance Agreement shall prevail.

Effective April 11, 2014





