



PrairieSky Royalty Ltd.

## Interim Condensed Financial Statements

(unaudited)

For the three months ended March 31, 2016

## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

(millions)		As at March 31, 2016	As at December 31, 2015
<b>Assets</b>			
Current Assets			
Cash and cash equivalents		\$ 182.7	\$ 190.8
Accounts receivable and accrued revenue	(Note 4)	44.1	36.4
Income tax receivable		21.4	21.4
Prepaid expense		0.5	0.6
		<b>248.7</b>	249.2
Royalty assets, net	(Note 5)	879.1	918.6
Exploration and evaluation assets	(Note 6)	1,148.4	1,148.4
Other assets	(Note 7)	6.6	7.6
Goodwill		614.4	614.4
		<b>\$ 2,897.2</b>	\$ 2,938.2
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities			
Accounts payable and accrued liabilities	(Note 8)	\$ 33.7	\$ 14.2
Dividend payable	(Note 9)	13.7	24.7
		<b>47.4</b>	38.9
Share-based compensation payable	(Note 10)	3.0	2.8
Deferred income taxes		181.6	186.3
		<b>232.0</b>	228.0
<b>Shareholders' Equity</b>			
Shareholders' capital	(Note 9)	3,084.1	3,067.8
Paid in surplus		2.1	1.8
Deficit		(421.0)	(359.4)
<b>Total Shareholders' Equity</b>		<b>2,665.2</b>	2,710.2
<b>Commitments</b>	(Note 16)		
<b>Subsequent event</b>	(Note 17)		
		<b>\$ 2,897.2</b>	\$ 2,938.2

See accompanying Notes to Interim Condensed Financial Statements

## STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (UNAUDITED)

( millions, except per share amounts)	Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Revenues</b>		
Royalty revenue	\$ 43.2	\$ 43.6
Other revenue	5.7	10.8
<b>Revenues</b>	<b>48.9</b>	54.4
<b>Expenses</b>		
Production and mineral taxes	1.1	2.2
Depreciation, depletion and amortization <i>(Note 5)</i>	40.9	23.9
Exploration and evaluation <i>(Note 6)</i>	1.3	0.4
Administrative <i>(Note 11)</i>	9.2	7.5
<b>Net Earnings (Loss) Before Finance Items and Income Taxes</b>	<b>(3.6)</b>	20.4
<b>Finance Items</b>		
Finance income	(0.6)	(0.3)
Finance expense	0.1	0.1
<b>Net Earnings (Loss) Before Income Tax</b>	<b>(3.1)</b>	20.6
Income tax expense (recovery) <i>(Note 12)</i>	(4.8)	3.8
<b>Net Earnings and Comprehensive Income</b>	<b>\$ 1.7</b>	<b>\$ 16.8</b>
<b>Net Earnings per Common Share</b> <i>(Note 9)</i>		
Basic and Diluted	<b>\$ 0.01</b>	<b>\$ 0.11</b>

See accompanying Notes to Interim Condensed Financial Statements

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(millions)	Shareholders' Capital	Paid In Surplus	Deficit	Total Shareholders' Equity
<b>Balance at December 31, 2015</b>	<b>\$ 3,067.8</b>	<b>\$ 1.8</b>	<b>\$ (359.4)</b>	<b>\$ 2,710.2</b>
Net earnings	-	-	1.7	1.7
Common shares issued:				
Pursuant to dividend reinvestment plan (Note 9)	15.6	-	-	15.6
Pursuant to stock dividend plan (Note 9)	0.6	-	-	0.6
Share issue costs, net of tax (Note 9)	0.1	-	-	0.1
Share-based compensation (Note 10)	-	0.3	-	0.3
Dividends on common shares (Note 9)	-	-	(63.3)	(63.3)
<b>Balance at March 31, 2016</b>	<b>\$ 3,084.1</b>	<b>\$ 2.1</b>	<b>\$ (421.0)</b>	<b>\$ 2,665.2</b>

(millions)	Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
<b>Balance at December 31, 2014</b>	<b>\$ 1,181.0</b>	<b>\$ (255.7)</b>	<b>\$ 0.7</b>	<b>\$ 38.0</b>	<b>\$ 964.0</b>
Net earnings	-	-	-	16.8	16.8
Common shares issued:					
Pursuant to stock option plan (Note 9)	0.1	-	(0.1)	-	-
Share-based compensation (Note 10)	-	-	0.3	-	0.3
Dividends on common shares (Note 9)	-	-	-	(48.5)	(48.5)
<b>Balance at March 31, 2015</b>	<b>\$ 1,181.1</b>	<b>\$ (255.7)</b>	<b>\$ 0.9</b>	<b>\$ 6.3</b>	<b>\$ 932.6</b>

See accompanying Notes to Interim Condensed Financial Statements

## STATEMENT OF CASH FLOWS (UNAUDITED)

(millions)		Three months ended March 31, 2016	Three months ended March 31, 2015
<b>Operating Activities</b>			
Net earnings		\$ 1.7	\$ 16.8
Depreciation, depletion and amortization	(Note 5)	40.9	23.9
Exploration and evaluation	(Note 6)	1.3	0.4
Deferred income taxes	(Note 12)	(4.8)	(4.0)
Share-based compensation, net of cash settlements	(Note 10)	1.4	1.3
Non-cash other revenue		-	(1.5)
Net change in other assets		0.9	0.8
Net change in non-cash working capital	(Note 15)	2.2	1.2
<b>Cash From Operating Activities</b>		<b>43.6</b>	<b>38.9</b>
<b>Investing Activities</b>			
Royalty asset acquisitions	(Note 5)	(1.4)	(1.5)
Exploration and evaluation acquisitions	(Note 6)	(1.3)	(1.5)
Net change in non-cash working capital	(Note 15)	9.2	-
<b>Cash From (Used in) Investing Activities</b>		<b>6.5</b>	<b>(3.0)</b>
<b>Financing Activities</b>			
Dividends on common shares	(Note 9)	(58.1)	(48.2)
Share issue costs	(Note 9)	0.2	-
Net change in non-cash working capital	(Note 15)	(0.3)	-
<b>Cash Used in Financing Activities</b>		<b>(58.2)</b>	<b>(48.2)</b>
<b>Decrease in Cash and Cash Equivalents</b>		<b>(8.1)</b>	<b>(12.3)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>		<b>190.8</b>	<b>63.1</b>
<b>Cash and Cash Equivalents, End of Period</b>		<b>\$ 182.7</b>	<b>\$ 50.8</b>

See accompanying Notes to Interim Condensed Financial Statements

## 1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. (“PrairieSky” or the “Company”) has a geologically and geographically diverse portfolio of fee simple mineral title, oil and natural gas gross overriding royalty interests and other acreage spanning British Columbia, Alberta, Saskatchewan and Manitoba (collectively, the “Royalty Properties”). The Company is focused on encouraging third parties to actively develop the Royalty Properties, while strategically seeking additional petroleum and natural gas royalty assets that provide the Company with medium-term to long-term value enhancement potential. The Company does not directly conduct operations to explore for, develop or produce petroleum or natural gas; rather, third party development of the titled or leased lands provides the Company with royalty revenue as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of British Columbia, Alberta, Saskatchewan, and Manitoba.

The Company’s shares are publicly traded on the Toronto Stock Exchange (“TSX”) under the stock symbol “PSK”. The location of the head and registered office of the Company is Suite 1700, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9.

## 2. BASIS OF PRESENTATION

### A) STATEMENT OF COMPLIANCE

These unaudited interim condensed financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting” and have been prepared following the same accounting policies and methods of computation as the audited annual financial statements. Certain information and disclosures normally included in the audited annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted. Accordingly, these interim condensed financial statements should be read in conjunction with the audited annual financial statements for the year ended December 31, 2015.

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

These unaudited interim condensed financial statements were authorized for issuance by the Company’s Audit Committee on April 26, 2016.

### B) ESTIMATES

The timely preparation of the unaudited interim condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the period. Actual results may differ from these estimates.

In preparing these unaudited interim condensed financial statements, the judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended December 31, 2015.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS

### New Standards Issued Not Yet Adopted

On May 28, 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers” which is the result of the joint project with Financial Accounting Standards Board (“FASB”). The new standard replaces the two main recognition standards IAS 18, “Revenue” and IAS 11, “Construction Contracts”. The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue and becomes effective

January 1, 2018. The Company is currently assessing the potential impact of the standard on the Company's financial statements.

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

On January 13, 2016, the IASB issued IFRS 16, "Leases". The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 "Revenue from Contracts with Customers" has also been adopted. Under the new standard, companies will recognize new assets and liabilities, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company is currently assessing the potential impact of the standard on the Company's financial statements.

#### 4. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

	As at March 31, 2016	As at December 31, 2015
Trade receivables and accrued revenue	\$ 26.7	\$ 32.1
Current portion of royalty note receivable (Note 7)	3.6	3.6
Production and mineral taxes receivable	13.6	0.5
Interest receivable	0.2	0.2
	<b>\$ 44.1</b>	<b>\$ 36.4</b>

Trade receivables and accrued revenue relate to lease and royalty payments receivable. The analysis of accounts receivable and accrued revenue that are past due but not impaired is as follows:

	Total	Neither past due nor impaired	Past due but not impaired	
			4 - 6 Months	7- 12 Months
As at March 31, 2016	\$ 44.1	\$ 43.9	\$ 0.1	\$ 0.1
As at December 31, 2015	\$ 36.4	\$ 35.8	\$ 0.4	\$ 0.2

At March 31, 2016, there was no allowance or provision made for doubtful accounts. In determining the recoverability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivables and the credit worthiness of the counterparties. See Note 14 for further information about credit risk.

## 5. ROYALTY ASSETS, NET

	As at March 31, 2016	As at December 31, 2015
<b>Cost</b>		
Balance, Beginning of Period	\$ 1,039.7	\$ 557.4
Assets acquired through business combination	-	435.3
Transfers from exploration & evaluation assets	-	2.1
Other asset acquisitions	1.4	44.9
<b>Balance, End of Period</b>	<b>1,041.1</b>	1,039.7
<b>Accumulated Depletion, Depreciation and Amortization</b>		
Balance, Beginning of Period	(121.1)	(24.8)
Depletion, depreciation and amortization	(40.9)	(96.3)
<b>Balance, End of Period</b>	<b>(162.0)</b>	(121.1)
<b>Net Book Value, End of Period</b>	<b>\$ 879.1</b>	<b>\$ 918.6</b>

For the three months ended March 31, 2016, asset acquisitions totaled \$1.4 million (March 31, 2015 - \$1.5 million) which are primarily acquisitions of fee land and producing gross overriding royalties.

## 6. EXPLORATION AND EVALUATION ASSETS

	As at March 31, 2016	As at December 31, 2015
<b>Cost</b>		
Balance, Beginning of Period	\$ 1,148.4	\$ 107.8
Assets acquired through business combination	-	1,016.7
Transfers to royalty assets	-	(2.1)
Other asset acquisitions	1.3	28.2
Land expiries	(1.3)	(2.2)
<b>Balance, End of Period</b>	<b>\$ 1,148.4</b>	<b>\$ 1,148.4</b>

For the three months ended March 31, 2016, the Company acquired \$1.3 million (March 31, 2015 - \$3.0 million) of exploration and evaluation assets ("E&E"), which include both asset acquisitions and land acquisitions. During the three month period ended March 31, 2015, the Company exchanged lease issuance bonus proceeds for E&E assets valued at \$1.5 million.

## 7. OTHER ASSETS

At March 31, 2016, other assets relate to the non-current portion of a royalty note receivable of \$6.6 million (December 31, 2015 - \$7.6 million), receivable in equal monthly instalments over the next three years bearing annual interest of four percent per annum. The current portion of the note receivable of \$3.6 million (December 31, 2015 - \$3.6 million) is included in accounts receivable and accrued revenue as disclosed in Note 4. The estimated fair value of other assets is categorized within Level 2 of the fair value hierarchy and has been determined based on market information where available using estimated interest rates based on the credit quality of the customer. During the three months ended March 31, 2016, \$0.1 million (March 31, 2015 - \$0.1 million) of interest income was recorded related to the royalty note receivable. As at March 31, 2016, the royalty note receivable had a fair value of \$10.3 million (December 31, 2015 - \$11.1 million).



## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at March 31, 2016	As at December 31, 2015
Trade payables	\$ 5.6	\$ 1.9
Production and mineral taxes payable	24.1	9.4
Accrued liabilities	4.0	2.9
	<b>\$ 33.7</b>	<b>\$ 14.2</b>

Accrued liabilities primarily include amounts related to salary and share-based compensation accruals.

## 9. SHARE CAPITAL

### AUTHORIZED

The authorized share capital of the Company includes an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders, except meetings at which only holders of a specified class of share have the right to vote. The common shares have no par value.

### ISSUED AND OUTSTANDING

	As at March 31, 2016		As at December 31, 2015	
	Number of Shares (millions)	Amount (\$ millions)	Number of Shares (millions)	Amount (\$ millions)
Common Shares Outstanding, Beginning of Period	228.2	\$ 3,067.8	149.3	\$ 1,181.0
Issued under dividend reinvestment plan	0.8	15.6	1.1	24.0
Issued under the stock dividend program	-	0.6	0.1	6.3
Issued pursuant to bought deal financing	-	-	6.3	198.0
Share issue costs, net of tax	-	0.1	-	(6.9)
Issued pursuant to an acquisition	-	-	-	0.5
Issued pursuant to business combination	-	-	44.4	984.9
Issued pursuant to the private placement	-	-	27.0	679.8
Issued pursuant to stock option exercise	-	-	-	0.2
<b>Common Shares Outstanding, End of Period</b>	<b>229.0</b>	<b>\$ 3,084.1</b>	<b>228.2</b>	<b>\$ 3,067.8</b>

### DIVIDENDS

During the three months ended March 31, 2016, PrairieSky declared dividends of \$63.3 million (March 31, 2015 - \$48.5 million) or \$0.27666 per share (March 31, 2015 - \$0.32499) and paid dividends of \$0.32499 (March 31, 2015 - \$0.32246) per common share. Of the total dividends paid, \$58.1 million (March 31, 2015 - \$48.2 million) was settled in cash and an additional \$16.2 million (March 31, 2015 - nil) was settled in common shares in lieu of cash dividends under the dividend reinvestment plan ("DRIP") and stock dividend plan ("SDP"). On February 29, 2016, the Company reduced its dividend to \$0.72 per common share per annum and suspended the DRIP and the SDP, all effective for the March 31, 2016 record date. On March 17, 2016, the Board declared a dividend of \$0.06 per common share payable on April 15, 2016 to common shareholders of record as of March 31, 2016.

## EARNINGS PER COMMON SHARE

The following table presents the computation of net earnings per common share:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net Earnings	\$ 1.7	\$ 16.8
Number of Common Shares:		
Weighted Average Common Shares outstanding - Basic	228.6	149.3
Effect of Dilutive Securities	0.2	-
Weighted Average Common Shares outstanding - Diluted	228.8	149.3
Net Earnings per Common Share		
Basic and Diluted	\$ 0.01	\$ 0.11

## 10. SHARE-BASED COMPENSATION PLANS

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

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

The Company accounts for PSUs, RSUs and DSUs held by Company employees, officers and directors as cash-settled share-based payment transactions and accrues compensation costs and dividends over the vesting period based on the fair value of the rights. The Company may make an election to settle vested share unit awards with either a cash payment equal to the five-day weighted average trading price for the common shares multiplied by the number of common shares or issue the number of common shares. PSUs vest immediately following the completion of a three year performance period provided the employee remains actively employed with the Company on the vesting date. RSUs granted to employees vest 30% after the second anniversary of the date of grant and the remaining 70% vest after the third anniversary or evenly over a three year period, provided the employee remains actively employed with the Company on the vesting date. RSUs granted to officers of the Company fully vest three years from the date of grant or evenly over a three year period provided the officer remains actively employed with the Company on the vesting date. DSUs are fully vested as of the grant date.

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

	Three months ended March 31, 2016	Three months ended March 31, 2015
Compensation costs of transactions classified as equity-settled	\$ 0.3	\$ 0.3
Compensation costs of transactions classified as cash-settled	2.3	1.7
<b>Total share-based compensation expense</b>	<b>\$ 2.6</b>	<b>\$ 2.0</b>

The Company has recognized the following liability for share-based payment transactions:

	As at March 31, 2016	As at December 31, 2015
Liability for unvested cash-settled plans	\$ 3.0	\$ 2.8
Liability for vested cash-settled plans	2.6	1.7
<b>Liability for cash-settled plans</b>	<b>\$ 5.6</b>	<b>\$ 4.5</b>

## A) STOCK OPTIONS

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

The following table summarizes the change in stock options outstanding:

	Number (thousands)	Weighted average exercise price (\$)
Issued and Outstanding, December 31, 2014	511.5	29.01
Granted	354.7	30.10
Exercised	(54.9)	28.00
Forfeited	(18.0)	28.93
<b>Issued and Outstanding, December 31, 2015</b>	<b>793.3</b>	<b>29.57</b>
Granted	371.3	22.55
Forfeited	(116.8)	(31.73)
<b>Issued and Outstanding, March 31, 2016</b>	<b>1,047.8</b>	<b>26.83</b>

The following weighted average assumptions were used to determine the fair value of stock options granted by the Company during the period:

	March 31, 2016	March 31, 2015
Risk free interest rate	0.73%	0.75%
Dividend yield	5.76%	4.22%
Expected volatility rate	36%	25%
Forfeiture rate	6.4%	6.4%
Expected life	5 yrs	5 yrs
Weighted average grant price	\$22.55	\$30.81
Fair value per option on grant date	\$3.62	\$3.93

The following table summarizes information regarding stock options outstanding at March 31, 2016:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price for options outstanding (\$/share)	Number of options exercisable	Weighted average exercise price for options exercisable (\$/share)	Weighted average fair value for options outstanding (\$/share)
\$22.50-\$28.00	786,355	3.94	25.52	119,318	28.00	3.74
\$30.80-\$30.88	261,404	3.91	30.81	78,421	30.81	3.93

The following table summarizes information regarding stock options outstanding at December 31, 2015:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining life (years)	Weighted average exercise price for options outstanding (\$/share)	Number of options exercisable	Weighted average exercise price for options exercisable (\$/share)	Weighted average fair value for options outstanding (\$/share)
\$25.90-\$28.00	448,352	3.58	27.76	119,318	28.00	3.82
\$30.80-\$39.03	344,936	4.09	31.93	14,063	39.03	4.24

For the three months ended March 31, 2016, administrative expense includes \$0.3 million (March 31, 2015 - \$0.3 million) of compensation costs related to stock options.

## B) PERFORMANCE SHARE UNITS

PSUs have been granted to eligible employees and entitle the employee to receive, upon vesting and subject to an election made by the Company, a cash payment that is equal to the value of one common share of the Company for each PSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares. PSUs vest immediately following completion of the performance period, provided the employee remains actively employed with the Company on the vesting date.

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

The following table summarizes information related to the PSUs:

<i>Outstanding PSUs (thousands of units)</i>	March 31, 2016	December 31, 2015
Outstanding, Beginning of Period	140.8	67.8
Granted	89.4	84.5
Deemed eligible to vest	(11.1)	(16.5)
Forfeited	(19.7)	-
Units, in lieu of dividends	1.5	5.0
<b>Issued and Outstanding, End of Period</b>	<b>200.9</b>	<b>140.8</b>

For the three months ended March 31, 2016, the Company recorded compensation costs of \$0.3 million (March 31, 2015 - \$0.4 million) related to outstanding PSUs. The market share price used in the PSU fair value calculation at March 31, 2016 was \$24.64 (March 31, 2015 - \$29.88). The remaining weighted average life is 2.1 years.

## C) RESTRICTED SHARE UNITS

RSUs have been granted to eligible employees and entitle the employee to receive, upon vesting and subject to an election made by the Company, a cash payment that is equal to the value of one common share for each RSU held, plus accrued dividends over the period from the date of grant to vesting, or the equivalent number of shares. RSUs vest 30% after the second anniversary and the remaining 70% after the third anniversary or evenly over three years, provided the employee remains actively employed with the Company on the vesting date.

The following table summarizes information related to the RSUs:

<i>Outstanding RSUs (thousands of units)</i>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Issued and Outstanding, Beginning of Period	<b>206.2</b>	112.3
Granted	<b>118.6</b>	130.2
Deemed eligible to vest	<b>(5.5)</b>	(9.1)
Exercised	<b>(36.4)</b>	-
Units, in lieu of dividends	<b>2.6</b>	7.9
Forfeited	<b>(16.0)</b>	(35.1)
<b>Issued and Outstanding, End of Period</b>	<b>269.5</b>	206.2

For the three months ended March 31, 2016, the Company recorded compensation costs of \$1.1 million (March 31, 2015 - \$0.7 million), respectively, related to outstanding RSUs. The market share price used in the RSU fair value calculation at March 31, 2016 was \$24.64 (March 31, 2015 - \$29.88). The remaining weighted average life is 2.4 years.

#### D) DEFERRED SHARE UNITS

Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee retainers and fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a common share plus accrued dividends over the period from date of grant and vesting to the date of redemption and are settled in cash. DSUs can only be redeemed following departure from the Company and must be redeemed prior to December 15th of the year following departure. For the three months ended March 31, 2016, the majority of the Directors elected to receive their annual Board and Committee retainers and fees in the form of DSUs.

The following table summarizes information related to the DSUs:

<i>Outstanding DSUs (thousands of units)</i>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Issued and Outstanding, Beginning of Period	<b>33.0</b>	22.8
Granted	<b>30.2</b>	18.8
Exercised	-	(9.8)
Units, in lieu of dividends	<b>0.8</b>	1.2
<b>Issued and Outstanding, End of Period</b>	<b>64.0</b>	33.0

For the three months ended March 31, 2016, the Company recorded compensation costs of \$0.9 million (March 31, 2015 - \$0.6 million) related to outstanding DSUs.

## 11. ADMINISTRATIVE EXPENSE

	<b>Three months ended March 31, 2016</b>	<b>Three months ended March 31, 2015</b>
Salaries and benefits	\$ 4.3	\$ 4.3
Share-based compensation (Note 10)	2.6	2.0
Office expense	1.3	0.9
Public company expense	0.5	0.2
Information technology and other	0.5	0.1
<b>Administrative Expense</b>	<b>\$ 9.2</b>	<b>\$ 7.5</b>

## 12. INCOME TAXES

	Three months ended March 31, 2016	Three months ended March 31, 2015
Current tax expense	\$ -	\$ 7.8
Deferred tax recovery	(4.8)	(4.0)
<b>Income tax expense (recovery)</b>	<b>\$ (4.8)</b>	<b>\$ 3.8</b>

## 13. CAPITAL MANAGEMENT

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

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, taxes, available Credit Facility (Note 14), share issuance costs and other factors. The Company's operating results and capital structure are impacted by the level of development activity by third parties on the Fee Lands and other royalty lands and the resultant royalty revenue, level of costs incurred by the Company and commodity prices.

	As at March 31, 2016	As at December 31, 2015
Shareholders' equity	\$ 2,665.2	\$ 2,710.2
Working capital	201.3	210.3

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

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The fair values of cash and cash equivalents, accounts receivable and accrued revenue, accounts payable and accrued liabilities and dividends payable approximate their carrying amount due to the short-term maturity of those instruments. Refer to Note 7 for the fair value of the royalty note receivable.

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

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

#### Commodity Price Risk

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

## Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities.

At March 31, 2016, the Company had no interest bearing liabilities. The Company's royalty note receivable (Note 7) earns interest at a fixed rate. The cash balance on deposit at March 31, 2016 earns interest at variable rates.

## Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. A substantial portion of the Company's accounts receivable are from royalty agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables. In addition, the Company takes its production in kind to mitigate credit risk as appropriate.

As at March 31, 2016, there were no counterparties whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. For the periods presented, the Company did not have an allowance for doubtful accounts nor did it provide for any doubtful accounts.

## Liquidity Risk

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

The timing of expected cash outflows relating to accounts payable and accrued liabilities of \$33.7 million and dividend payable of \$13.7 million is less than one year.

The Company has in place a \$75 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to \$125 million, and an unsecured \$25 million extendible operating credit facility (the "Operating Facility", and together with the Revolving Facility, the "Credit Facility"), with a syndicate of Canadian chartered banks. On June 18, 2015, the credit facility maturity date was extended for an additional year to May 29, 2018.

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate advances, LIBOR loans, bankers' acceptances and letters of credit, and bears interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured. The Revolving Facility and the Operating Facility are each for three-year terms and, subject to certain requirements, are extendible annually. As at March 31, 2016, the Credit Facility is undrawn.

## 15. SUPPLEMENTARY INFORMATION

### NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended March 31, 2016	Three months ended March 31, 2015
Source (use) of cash:		
Accounts receivable and accrued revenue	\$ (7.7)	\$ (13.1)
Prepaid assets	0.1	0.2
Income taxes receivable	-	-
Accounts payable and accrued liabilities	18.7	30.0
Income taxes payable	-	(15.9)
Changes in non-cash working capital	\$ 11.1	\$ 1.2
Related to operating activities	2.2	1.2
Related to investing activities	9.2	-
Related to financing activities	(0.3)	-
Changes in non-cash working capital	\$ 11.1	\$ 1.2

### SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended March 31, 2016	Three months ended March 31, 2015
Interest Paid	\$ 0.1	\$ 0.1
Interest Received	0.6	0.3
Income Taxes Paid	-	23.7

## 16. COMMITMENTS

The following table outlines the Company's commitments as at March 31, 2016:

(\$ millions)	Expected Future Payments						Total
	2016	2017	2018	2019	2020	Thereafter	
<i>(undiscounted)</i>							
Office lease commitments	\$ 1.2	\$ 1.5	\$ 1.5	\$ 1.4	\$ 1.4	\$ 4.7	\$11.7

The Company has in place two royalty acquisition agreements with unrelated parties. The agreements expire on December 31, 2016 and August 1, 2017 with remaining commitments, subject to numerous conditions, of \$0.9 million and \$2.8 million, respectively.

## 17. SUBSEQUENT EVENT

On April 26, 2016, PrairieSky announced its intention to apply for and initiate a normal course issuer bid ("NCIB") to repurchase up to \$40 million of common shares over the next 12 months. The NCIB has been approved by the Company's board of directors; however, it is subject to acceptance by the Toronto Stock Exchange ("TSX"), and if accepted, will be made in accordance with the applicable rules and policies of the TSX and applicable securities laws.



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

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

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

### OFFICERS

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Andrew M. Phillips, President & Chief Executive Officer  
Cameron M. Proctor, Chief Operating Officer  
Pamela Kazeil, Vice President, Finance & Chief Financial Officer  
Michelle L. Radomski, Vice-President, Land

### AUDITORS

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KPMG LLP

### BANKERS

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Toronto-Dominion Bank  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce

### TORONTO STOCK EXCHANGE TRADING SYMBOL

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PSK

### INDEPENDENT RESERVE EVALUATORS

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GLJ Petroleum Consultants Ltd.  
Sproule Associates Limited

### TRANSFER AGENT

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TMX Equity Transfer Services

### ABBREVIATIONS

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

### CORPORATE OFFICE

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### CONTACT US

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