PrairieSky Royalty Ltd.

Interim Condensed Financial Statements

(Prepared in accordance with IFRS)

(unaudited)

For the period ended June 30, 2014

(Prepared in Canadian Dollars)

CONDENSED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME *(unaudited)*

($ thousands)		For the period from May 27, 2014 to June 30, 2014
Revenues	*(Note 6)*	**$ 37,222**
Expenses		
Freehold mineral taxes		**1,136**
Depreciation, depletion and amortization	*(Note10)*	**3,748**
Administrative	*(Note 7)*	**2,664**
Net Earnings before finance items and income taxes		**29,674**
Finance Items		
Finance income		**(66)**
Finance expense		**152**
Net Earnings Before Income Tax		**29,588**
Income tax expense	*(Note 8)*	**5,681**
Net Earnings and Comprehensive Income		**$ 23,907**
Net Earnings per Common Share	*(Note 15)*	
Basic		**$ 1.01**
Diluted		**$ 1.00**

See accompanying Notes to Interim Condensed Financial Statements

CONDENSED BALANCE SHEET *(unaudited)*

($ thousands)		As at June 30, 2014	As at December 31, 2013
Assets			
Current Assets			
Cash and cash equivalents		**$ 27,160**	$ 60
Accounts receivable and accrued revenues	*(Note 9)*	**57,165**	-
Prepaid expense		**256**	-
		84,581	60
Property, Plant and Equipment, net	*(Note 10)*	**177,041**	-
Exploration and Evaluation Assets	*(Note 11)*	**6,809**	-
Other Assets	*(Note 12)*	**12,950**	-
Goodwill	*(Note 13)*	**57,734**	-
		$ 339,115	$ 60
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	*(Note 14)*	**$ 9,155**	$ -
Income tax payable		**4,137**	-
Dividend payable	*(Note 15)*	**13,754**	-
		27,046	-
Share-based Compensation Payable	*(Note 16)*	**260**	-
Deferred Income Taxes	*(Note 8)*	**1,544**	-
		28,850	-
Shareholders' Equity			
Shareholders' capital	*(Note 15)*	**555,708**	10
Reserve from common control	*(Note 5)*	**(255,734)**	-
Paid in Surplus	*(Note 16)*	**138**	50
Retained Earnings		**10,153**	-
Total Shareholders' Equity		**310,265**	60
		$ 339,115	$ 60
Commitments and Contingencies	*(Note 20)*		

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY *(unaudited)*

($ thousands)		Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2013		**$ 10**	**$ -**	**$ 50**	**$ -**	**$ 60**
Net earnings		-	-	-	23,907	23,907
Common shares issued:						
Pursuant to the Acquisition	*(Note 5)*	555,698	(255,734)	-	-	299,964
Share-based compensation	*(Note 16)*	-	-	88	-	88
Dividends on common shares	*(Note 15)*	-	-	-	(13,754)	(13,754)
Balance at June 30, 2014		**$ 555,708**	**$ (255,734)**	**$ 138**	**$ 10,153**	**$ 310,265**

See accompanying Notes to Interim Condensed Financial Statements

CONDENSED STATEMENT OF CASH FLOWS *(unaudited)*

($ thousands)		For the period from May 27, 2014 to June 30, 2014
Operating Activities		
Net earnings		$ 23,907
Depreciation, depletion and amortization	*(Note 10)*	3,748
Deferred income taxes	*(Note 8)*	1,544
Share-based compensation	*(Note 16)*	1,216
Other non-cash item		125
Net change in other assets and liabilities		284
Net change in non-cash working capital	*(Note 19)*	(3,938)
Cash From (Used in) Operating Activities		26,886
Investing Activities		
Lease issuance bonus proceeds		459
Cash From (Used in) Investing Activities		459
Financing Activities		
Financing costs		(245)
Cash From (Used in) Financing Activities		(245)
Increase (Decrease) in Cash and Cash Equivalents		27,100
Cash and Cash Equivalents, Beginning of Period		60
Cash and Cash Equivalents, End of Period		$ 27,160

See accompanying Notes to Interim Condensed Financial Statements

1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") is focused on strategically leasing oil and gas fee lands to generate royalties.

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

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

2. BASIS OF PRESENTATION

These unaudited Interim Condensed Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Condensed Financial Reporting" and should be read in conjunction with the audited financial statements for the period ended December 31, 2013, which have been prepared under International Financial Reporting Standards ("IFRS").

Prior to the Acquisition on May 27, 2014, the Company had no significant operating activity. Subsequent to the Acquisition the Company commenced active operations. The Interim Condensed Financial Statements include the accounts of the Company from May 27, 2014 to June 30, 2014.

These Interim Condensed Financial Statements have been prepared on a historical cost basis, except for share-based payment transactions and financial assets and liabilities measured at fair value. The Interim Condensed Financial Statements have been prepared on a going-concern basis and amounts are in thousands of Canadian dollars unless otherwise stated.

These unaudited Interim Condensed Financial Statements were authorized for issue by the Company's Audit Committee on July 21, 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The timely preparation of financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the Interim Condensed Financial Statements and the reported amounts of revenues and expenses during the applicable periods. Such estimates primarily relate to unsettled transactions and events as at the date of the Interim Condensed Financial Statements. Accordingly, actual results could differ from the estimates in these Interim Condensed Financial Statements. Significant estimates and judgments made by management in the preparation of these Interim Condensed Financial Statements are outlined below.

In connection with the Acquisition and pursuant to the terms of the PSA between the Company and Encana, the Acquired Business was acquired by the Company from Encana. The Company was a wholly owned subsidiary and controlled by Encana prior to closing the IPO and immediately subsequent to closing; consequently the entity was under common control at the time of the Acquisition. Business combinations involving entities under common control are outside the scope of IFRS 3 “Business Combinations”. IFRS provides no guidance on the accounting for these types of transactions, as a result the Company was required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management has determined that the predecessor values from date of transaction method to be the most appropriate method. This method requires the financial statements to be prepared using the predecessor carrying values without an adjustment to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities are recorded as a Reserve from Common Control in Shareholders’ equity.

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

Crude oil and natural gas assets are aggregated into cash-generating units (“CGU”) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company’s cash-generating unit is based on the nature of development and how the business is managed.

The decision to transfer assets from exploration and evaluation to property, plant and equipment or to expense capitalized exploration and evaluation assets is based on the estimated proved reserves used in the determination of an area's technical feasibility and commercial viability.

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be recovered through future taxable earnings.

Estimates are utilized in determining accruals for share-based compensation arrangements, including whether or not the performance criteria will be met and measurement of the ultimate payout amount. For further information on significant estimates and judgments utilized under the long-term performance arrangement refer to share-based compensation discussion below.

B) REVENUE RECOGNITION

Royalty revenue on the sale of crude oil, NGL and natural gas is recognized when the product is produced.

C) FREEHOLD MINERAL TAXES

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

D) SHARE-BASED COMPENSATION

The Company’s long term incentive plans include an Incentive Stock Option Plan, Restricted Share Unit (“RSU”) Plan, Performance Share Unit (“PSU”) Plan, and a Deferred Share Unit (“DSU”) Plan. Obligations for payments of cash or common shares under the Company’s long term incentive plans are accrued over

the vesting period using fair values. Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine the fair value.

For equity-settled compensation plans, including stock options, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding credit to Shareholders' Equity. The Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in Note 16.

For cash-settled compensation plans, fair values are determined at each reporting date and periodic changes are recognized as compensation costs with a corresponding change in liabilities. The fair value of RSUs at grant date are estimated based on the trading price on the TSX prior to the date of grant, except for the initial grant which was based on the IPO price. Judgment is also required to estimate the number of restricted share units that will ultimately vest.

PSUs, RSUs and DSUs are accounted for as liability instruments and are remeasured at fair value based on the market value of the Company's common shares at each reporting date. The fair value is recognized as compensation costs over the vesting period. Fluctuations in the fair values are recognized as compensation costs in the period they occur.

E) INCOME TAXES

Income tax is recognized in net earnings except to the extent that it relates to items recognized directly in Shareholders' Equity, in which case the income tax is recognized directly in Shareholders' Equity. Current income taxes are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

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

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

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

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

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

Related to the Acquisition under common control, the Company qualifies for the initial recognition exemption under IAS 12 "Income Taxes" and a deferred tax asset will not be recognized related to the excess of the tax pools acquired relative to the carrying value of the net assets transferred. The unrecognized deferred income tax asset is being amortized based on the net tax pool and DD&A claims calculated for the period.

Income tax expense for an interim period is based on an estimated average annual effective income tax rate.

F) EARNINGS PER SHARE AMOUNTS

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

G) CASH AND CASH EQUIVALENTS

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

H) EXPLORATION AND EVALUATION

All costs directly associated with the evaluation of crude oil, NGL and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs generally include unproved property acquisition costs, undeveloped land, mineral leases and seismic costs. Costs incurred prior to acquiring the legal rights to evaluate an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. When an area is determined not to be technically feasible and commercially viable, the unrecoverable costs are charged to net earnings as exploration and evaluation expense.

I) PROPERTY PLANT AND EQUIPMENT

All costs directly associated with crude oil, NGL and natural gas properties are capitalized on an area-by-area basis. Costs include proved and probable property acquisitions and transfers of exploration and evaluation assets, less impairments recognized.

During the period, the Company adopted a change in accounting estimate (refer to Note 4). Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs.

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

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

J) BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any

differences between the fair value of net assets acquired and their tax bases. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

K) GOODWILL

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

Goodwill is assessed for impairment at least annually. If the goodwill carrying amount for the CGU exceeds the recoverable amount of the CGU, the associated goodwill is written down with an impairment recognized in net earnings. The recoverable amounts are determined annually based on the greater of fair value less costs of disposal or value in use. Fair value less costs of disposal is derived by estimating the discounted after-tax future net cash flows for the CGU. Discounted future net cash flows are based on forecast commodity prices and costs over the expected economic life of the proved and probable reserves and discounted using market-based rates. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the CGU. Goodwill impairments are not reversed.

The Company's reserves are evaluated annually by independent qualified reserve evaluators ("IQRE"). The cash flows used in determining the receivable amount are based on information contained in the IQRE reports and management's assumptions provided therein.

L) IMPAIRMENT OF LONG-TERM ASSETS

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

Upstream assets, including exploration and evaluation costs and development costs are recognized into the CGU based on ability to generate cash flow for purposes of testing for impairment.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal or its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs of disposal may be determined using after-tax discounted future net cash flows of proved and probable reserves using forecast prices and costs. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the CGU.

Reversals of impairments are recognized when there has been a subsequent increase in the recoverable amount. In this event, the carrying amount of the asset or CGU is increased to its revised recoverable amount with an impairment reversal recognized in net earnings. The recoverable amount is limited to the original carrying amount less DD&A as if no impairment had been recognized for the asset or CGU for prior periods.

M) PROVISIONS AND CONTINGENCIES

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

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

N) FINANCIAL INSTRUMENTS

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

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

Accounts receivable and accrued revenues are classified as "loans and receivables" and are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as "other financial liabilities" and are measured at amortized cost. The fair values of accounts receivable and accrued revenues and accounts payable and accrued liabilities approximate their carrying value due to the short-term nature of these instruments. The Company has not designated any financial instruments as "available-for-sale", "held-to-maturity" or "fair value through profit and loss".

The Company capitalizes long-term debt transaction costs, premiums and discounts. These costs are capitalized within long-term debt and amortized using the effective interest method.

O) FAIR VALUE MEASUREMENTS

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

A three level hierarchy that reflects the significance of the inputs used in making the fair value measurements is required. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. In the absence of an active market, assets and liabilities in Level 2 include models to determine fair value using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

P) RECENT ACCOUNTING PRONOUNCEMENTS

Changes in Accounting Policies and Practices

On January 1, 2014, the Company adopted the following accounting standards updates issued by the International Accounting Standards Board ("IASB"), which have not had a material impact on the Interim Condensed Financial Statements:

IAS 32, "Financial Instruments: Presentation" was amended to clarify requirements for offsetting financial instruments in the balance sheet. The amendment requires that the right to offset must be available on the current date and cannot be contingent on a future event. The standard has been applied retrospectively.

International Financial Reporting Interpretations Committee 21, "Levies" provides guidance for accounting for levies that fall under the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation requires that obligations arising from levies imposed through legislation by governments are recognized when the triggering event or activity specified in the legislation occurs. The standard has been applied retrospectively.

New Standards Issued Not Yet Adopted

On December 16, 2011, the IASB issued IFRS 9, "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The classification and measurement requirements will be applied retrospectively upon adoption of the standard. In November 2013, IFRS 9 and IFRS 7 "Financial Instruments: Disclosures", were amended to include a new hedge accounting model that better reflects risk management activities in the financial statements of entities that elect to apply hedge accounting. This amendment to IFRS 9 also removes the previous mandatory effective date of January 1, 2015. The new effective date of IFRS 9 will be determined when the impairment phase of the project is completed. These new standards and amendments are not expected to have a material impact on the Company's Financial Statements.

On May 12, 2014, the IASB issued "Clarification of Acceptable Methods of Depreciation and Amortization" which amends IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets". The amendments to IAS 16 clarify that use of revenue-based methods to calculate the depreciation of property, plant and equipment is not appropriate as revenue also includes factors other than the consumption of the economic benefits derived from the asset. The amendments to IAS 38 state that revenue is not an appropriate basis for amortization of intangible assets, except in limited circumstances. These amendments will apply prospectively, effective January 1, 2016 and early application is permitted. The amendment is not expected to have a material impact on the Company's Financial Statements.

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. The new standard replaces the two main recognition standards IAS 18, "Revenue" and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue and becomes effective January 1, 2017. The Company is currently assessing the potential impact of the standard on the Company's Financial Statements.

4. CHANGE IN ACCOUNTING ESTIMATE

On May 27, 2014, the Company began depleting crude oil, NGL, and natural gas properties using the unit-of-production method over their proved plus probable reserves on a prospective basis. The previous policy was to deplete using the unit-of production method over the proved reserves. The change in estimate was made as proved plus probable reserves better reflects the estimated remaining service life of the related

assets. For the period from May 27, 2014 to June 30, 2014, the Company recorded $928 thousand lower depletion expense than it would have recorded using proved reserves. Based on the reserves at the date of change in estimate, the effect reduced depletion by $1.64 per barrel of equivalent. It is not practical for the Company to estimate the effect on depletion expense for future periods.

5. COMMON CONTROL TRANSACTION

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

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

Carrying value of net assets acquired:	**As transferred**
Exploration and evaluation assets	**$ 6,809**
Property, plant and equipment, net	**181,248**
Other assets	**16,451**
Goodwill	**57,734**
Net working capital	**37,722**
	$ 299,964

The difference between the common share consideration of $555,698 thousand and the carry value of the Acquired Business of $299,964 thousand is recognized as a Reserve from Common Control in Shareholders' equity, as follows:

Common shares	*(Note 15)*	**$ 555,698**
Carrying value of net assets acquired		**(299,964)**
Reserve from common control		**$ 255,734**

The amounts reported above are management's estimates using information available at the time of preparation of the financial statements. In accordance with the terms of the PSA, the transaction is subject to closing adjustments which will be settled within 180 days of closing of the Acquisition. Any closing adjustments will result in an adjustment to the carrying amounts of assets and liabilities reported above.

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

6. REVENUES

	For the period from May 27, 2014 to June 30, 2014
Royalty Revenues	**$ 34,182**
Lease Rentals	**3,036**
Sulphur Royalty	**4**
Total Revenues	**$ 37,222**

7. ADMINISTRATIVE EXPENSE

		For the period from May 27, 2014 to June 30, 2014
Salaries and Benefits		$ 1,087
Share-Based Compensation	*(Note 16)*	1,216
Office Expense		271
Public Company Expense		73
Information technology and other		17
		$ 2,664

8. INCOME TAXES

	For the period from May 27, 2014 to June 30, 2014
Current tax expense	$ 4,137
Deferred tax expense	1,544
Income tax expense	$ 5,681

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

	For the period from May 27, 2014 to June 30, 2014
Net Earnings Before Income Tax	$ 29,588
Canadian Statutory Rate	25.0%
Expected Income Tax	7,397
Effect on Taxes Resulting From:	
Permanent Differences	(1,716)
Income tax expense	$ 5,681

The Company's interim income tax expense is determined using the estimated annual effective income tax rate applied to year-to-date net earnings before tax. The deferred tax expense is a result of the application of the estimated annual effective income tax rate to the current period earnings less current tax expense based on the cash flow percentage at June 30, 2014 and will reverse by year-end.

Under the terms of the Acquisition, the Company acquired tax pools in the amount of approximately $500,000 thousand. The Company has not recognized a deferred income tax asset of $78,355 thousand related to the excess of tax pools acquired relative to the carrying value of the net assets transferred because the common control transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 "Income Taxes". Deferred income tax liabilities and assets are not recognized for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable benefit. The unrecognized deferred income tax asset is being amortized based on the net tax pool and DD&A claims calculated for the period. The reversal of the unrecognized deferred tax asset for the period was $1,229 thousand.

9. ACCOUNTS RECEIVABLE AND ACCRUED REVENUES

	As at June 30, 2014	As at December 31, 2013
Trade receivable and accrued revenues	**$ 53,489**	$ -
Current portion of note receivable	**3,676**	-
	$ 57,165	$ -

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

			Past due but not impaired	
	Total	Neither past due nor impaired	4 - 12 Months	Over 12 Months
As at June 30, 2014	**$ 57,165**	**$ 48,196**	**$ 8,916**	**$ 53**
As at December 31, 2013	$ -	$ -	$ -	$ -

As at June 30, 2014 and December 31, 2013, there was no allowance or provisions made for doubtful accounts. In determining the recoverability of trade receivables that are past due but not impaired, the Company considers the age of the outstanding receivable and the credit worthiness of the counterparties. See Note 18 for further information about credit risk.

10. PROPERTY, PLANT AND EQUIPMENT, NET

	As at June 30, 2014	As at December 31, 2013
Cost		
Balance at May 27, 2014	**$ 181,248**	$ -
Lease issuance bonus proceeds	**(459)**	-
Balance, end of period	**180,789**	-
Accumulated Depreciation, Depletion and Amortization		
Balance at May 27, 2014	**-**	-
Depreciation, depletion and amortization	**(3,748)**	-
Balance, end of period	**(3,748)**	-
Net book value, end of period	**$ 177,041**	$ -

11. EXPLORATION AND EVALUATION ASSETS

As at June 30, 2014, exploration and evaluation assets were $6,809 thousand (December 31, 2013 – nil). There were no acquisitions, transfers, nor impairments during the first six months ending June 30, 2014.

12. OTHER ASSETS

Other assets relates to a royalty note receivable payable over the next five years bearing annual interest of four percent. The current portion of the note receivable of $3,676 thousand is included in accounts receivable and accrued revenues as disclosed in Note 9. The estimated fair value of other assets is categorized within Level 2 of the fair value hierarchy and has been determined based on market information where available using estimated interest rates based on the credit quality of the customer. As at June 30, 2014, the royalty note receivable had a fair value of $18,703 thousand (December 31, 2013 – nil).

13. GOODWILL

Goodwill is assessed for impairment at least annually. The recoverable amounts used to assess goodwill were determined using fair value less costs of disposal. Fair value less costs of disposal was estimated for the CGU using the after-tax future net cash flows of proved and probable reserves based on forecast prices and costs, discounted at market rates. Forecast prices used to determine fair value in the assessment of goodwill were consistent with the forecast prices used to determine the fair value of the Company's assets as disclosed in Note 10 and Note 11. The after-tax discount rate applied to cash flow projections was 10% on December 31, 2013. The estimated fair value of goodwill is categorized within Level 3 of the fair value hierarchy.

Goodwill was attributed to the Company based on the historical carrying values carved-out of Encana as described in Note 5. In Conjunction with the carve-out, the company's goodwill was assessed for impairment, and accordingly no impairment was recognized. At the date of the Acquisition there were no events or changes in circumstances that would suggest the carrying amount of goodwill was impaired.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at June 30, 2014	As at December 31, 2013
Trade payables	**$ 298**	$ -
Freehold mineral taxes payable	**7,431**	-
Accrued liabilities	**1,426**	-
	$ 9,155	$ -

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

15. SHARE CAPITAL

AUTHORIZED

The authorized share capital of the Company includes an unlimited number of common shares and an unlimited number of preferred shares issuable in series. The holders of the common shares are entitled to one vote in respect of each common share held at all meetings of shareholders, except meetings at which only holders of a specified class of share have the right to vote. As at June 30, 2014, 130,000,000 common shares and nil preferred shares were issued and outstanding.

ISSUED AND OUTSTANDING

The following table summarizes the change in common shares issued and outstanding for the period ended June 30, 2014:

	Number of Shares (000's)	Amount ($ thousands)
Balance at inception on November 27, 2013	-	$ 10
Common shares issued	25,000	-
Balance at December 31, 2013	**25,000**	**10**
Share consolidation	(24,994)	-
Issued pursuant to the Acquisition (Note 5)	129,994	555,698
Issued and outstanding, end of period	**130,000**	**$ 555,708**

COMMON SHARES

On incorporation, the Company issued 100 common shares to Encana at a subscription price and stated capital of $100 per common share. In connection with an internal reorganization involving the Company and Encana that was completed effective December 13, 2013, the Company issued an additional 25,000,000 common shares with a nominal stated capital to Encana for non-cash consideration, and subsequently paid certain cash dividends and dividends in kind to Encana.

Share Consolidation

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

Initial Public Offering

On May 22, 2014, a final prospectus was filed qualifying the distribution of 52,000,000 common shares which were sold by Encana pursuant to the terms of an underwriting agreement dated May 22, 2014 at a price of $28.00 per common share which closed on May 29, 2014. On June 3, 2014, the underwriters exercised the over-allotment option resulting in an additional 7,800,000 common shares being sold by Encana at a price of $28.00 per common share. The Company did not receive any proceeds from the IPO nor was it responsible for any fees or expenses of the IPO. Subsequent to the IPO, Encana owns 54% of the outstanding common shares.

On May 29, 2014, the Company and Encana entered into, among other agreements: (i) a Governance Agreement, which will govern the various aspects of their relationship; and (ii) an Investor Liquidity Agreement, which will provide Encana or its transferee the ability to require the Company, among other things, to file future prospectuses in respect of the distribution of all or a portion of the common shares held by Encana or its transferee.

Acquisition of Royalty Business

On May 22, 2014, the Company and Encana entered into a PSA for the acquisition of the Acquired Business from Encana, pursuant to which Encana received 129,994,000 common shares as consideration. Under the PSA, the legal stated capital maintained by the Company for the common shares issued to Encana was $555,698 thousand comprised of the following:

Tax pools	**$ 500,000**
Working capital	**37,722**
Royalty note receivable	**16,500**
Other	**1,476**
Stated Capital	**$ 555,698**

As part of the Acquisition, the Company and Encana entered into: (i) a Seismic Licence Agreement for which Encana granted the Seismic Licence to the Company; and (ii) Lease Issuance and Administration Agreements pursuant to which the Company issued leases to document Encana's retention of certain working interests and pursuant to which, the Company receives royalties from Encana.

Upon completion of the Acquisition, the Company and Encana entered into a Transition Services Agreement ("TSA") pursuant to which Encana will provide certain day-to-day administrative services required by the Company until December 31, 2014, subject to earlier termination in certain circumstances.

DIVIDENDS

On June 18, 2014, the Board declared a dividend of $0.1058 per common share payable on July 15, 2014 to common shareholders of record as of June 30, 2014.

EARNINGS PER SHARE

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

	For the period from May 27, 2014 to June 30, 2014
Net Earnings	$ 23,907
Number of common shares:	
Weighted average common shares outstanding – Basic	23,707
Effect of dilutive securities	124
Weighted average common shares outstanding - Diluted	23,831
Net Earnings per Common Share	
Basic	$ 1.01
Diluted	$ 1.00

STOCK OPTIONS

See Note 16 for further information on the Company's outstanding and exercisable stock options.

16. SHARE-BASED COMPENSATION PLANS

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

The Company accounts for PSUs, RSUs and DSUs held by the 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 determined using the intrinsic fair value. As per the long-term incentive agreements, PSUs vest immediately following the completion of a three year performance period. RSUs granted to employees vest 30% after the second anniversary of the date of grant and the remaining 70% vest after the third anniversary, provided the employee remains actively employed with the Company on the vesting date. RSUs granted to officers of the Company fully vest 3 years from the date of grant. DSUs shall be fully vested as of the grant date. The initial grants were based on IPO pricing. For further information regarding the compensation plans for key management personnel please refer to Note 21.

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

As at June 30, 2014, the following weighted average assumptions were used to determine the fair value of the Company's share units held by employees:

Risk free interest rate	1.53%
Dividend yield	4.53%
Expected volatility rate	25%
Expected life	5 yrs
Vesting period	3 yrs
Grant price	$28.00
Market share price	$38.80

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

	As at June 30, 2014	As at December 31, 2013
Compensation costs of transactions classified as equity-settled	**$ 88**	$ -
Compensation costs of transactions classified as cash-settled	**1,128**	-
Total share-based compensation expense	**$ 1,216**	**$ -**

As at June 30, 2014, the liability for share-based payment transactions totaled $1,128 thousand.

	As at June 30, 2014	As at December 31, 2013
Liability for unvested cash-settled plans	**$ 260**	$ -
Liability for vested cash-settled plans	**868**	-
Liability for cash-settled plans	**$ 1,128**	**$ -**

The following outlines certain information related to the Company's compensation plans as at June 30, 2014:

A) STOCK OPTIONS

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

The following table summarizes the change in stock options outstanding:

	For the period from May 27, 2014 to June 30, 2014	
	Number of Shares (000's)	**Amount ($ thousands)**
Issued and outstanding, beginning of period	-	$ -
Granted	482	88
Exercised	-	-
Forfeited	-	-
Expired	-	-
Issued and outstanding, end of period	**482**	**$ 88**

The following table summarizes information regarding stock options outstanding at June 30, 2014:

Range Of Exercise Prices Per Common Share	Number of options outstanding (000's)	Weighted average remaining vesting period (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000's)	Weighted average exercise price for options exercisable ($/share)
$28.00	482,103	2.9	28.00	-	-
Total	482,103	2.9	28.00	-	-

For the period from May 27, 2014 to June 30, 2014, the amounts recognized for share-based compensation costs in administrative expense totaled $88 thousand with the offsetting balance recorded in paid in surplus. As at June 30, 2014, there was approximately $1,578 thousand of total unrecognized compensation costs related to unvested stock options held by the Company's employees.

B) PERFORMANCE SHARE UNITS

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

The ultimate value of the PSUs will depend upon the Company's performance relative to predetermined corresponding performance targets measured over a three-year period. For grants issued as part of the IPO, performance is based on the Company's Total Shareholder Return ("TSR"), 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:

	For the period from May 27, 2014 to June 30, 2014
(thousands of units)	Outstanding PSUs
Issued and outstanding, beginning of period	-
Granted	55,804
Deemed Eligible to Vest	-
Units, in Lieu of Dividends	155
Forfeited	-
Issued and outstanding, end of period	**55,959**

During the period, the Company recorded compensation costs of $119 thousand related to outstanding PSUs. As at June 30, 2014, there was approximately $3,946 thousand of total unrecognized compensation costs related to unvested PSUs held by the Company's employees. The costs are expected to be recognized over a weighted average period of 2.9 years.

C) RESTRICTED SHARE UNITS

RSUs have been granted to eligible employees during the period which entitles the employee to receive, upon vesting, a cash payment depending on the terms of the RSU Plan that is equal to the value of one common share of the Company for each RSU held, plus accrued dividends over the period from the date of grant to vesting. RSUs vest as defined above, provided the employee remains actively employed with the Company on the vesting date. As at June 30, 2014, the Company plans to settle the RSUs in cash on the vesting date.

The following table summarizes information related to the RSUs:

	For the period from May 27, 2014 to June 30, 2014
(thousands of units)	Outstanding RSUS
Issued and outstanding, beginning of period	-
Granted	118,983
Deemed Eligible to Vest	-
Units, in Lieu of Dividends	329
Forfeited	-
Issued and outstanding, end of period	**119,312**

During the period, the Company recorded compensation costs of $141 thousand related to outstanding RSUs. As at June 30, 2014, there was approximately $4,488 thousand of total unrecognized compensation costs related to unvested RSUs held by the Company's employees. The costs are expected to be recognized over a weighted average period of 2.75 years.

D) DEFERRED SHARE UNITS

The Company has in place a program where Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a common share and dividends accrued of the Company and are settled in cash. DSUs can only be redeemed following departure from the Company in accordance with the terms of the respective DSU Plan and must be redeemed prior to December 15th of the year following the departure from the Company. For the period from May 29, 2014 to June 30, 2014, all of the Directors have elected to receive their Board and Committee fees as DSUs.

The following table summarizes information related to the DSUs:

	For the period from May 27, 2014 to June 30, 2014
(thousands of units)	Outstanding DSUs
Issued and outstanding, beginning of period	-
Granted	22,322
Deemed Eligible to Vest	-
Units, in Lieu of Dividends	62
Forfeited	-
Issued and outstanding, end of period	**22,384**

During the period, the Company recorded compensation costs of $868 thousand related to outstanding DSUs.

17. CAPITAL MANAGEMENT

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

The Company's capital structure is comprised of shareholders' equity and working capital. The Company's capital structure is managed by taking into account operating activities, dividends paid to shareholders, taxes, available credit facility, 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 the resultant royalty revenue, level of costs incurred by the Company and commodity prices.

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

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

A) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of cash and cash equivalents, accounts receivable and accrued revenues and accounts payable and accrued liabilities approximate their carrying amount due to the short-term maturity of those instruments.

B) RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

Commodity Price Risk

Commodity price risk is the risk the Company will encounter fluctuations in its fair value of future cash flows 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.

Credit Risk

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

The Credit Facility includes borrowing options of Canadian prime rate-based advances, U.S. base rate based advances, LIBOR loans, bankers' acceptances and letters of credit, and will bear interest on a variable grid based on certain financial ratios, over the prevailing applicable rate for the type of loan. The Credit Facility is unsecured. The Revolving Facility and the Operating Facility will each be for three-year terms and, subject to certain requirements, will be extendible annually. As at June 30, 2014, the Credit Facility remained undrawn.

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 large part of accounts receivable is with oil and gas industry operators as payors of various royalty agreements. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables.

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.

As at June 30, 2014, the Company had no counterparties whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenues is the total carrying value. For the periods presented, the Company did not have an allowance for doubtful accounts nor provide for any doubtful accounts.

Interest Rate Risk

Interest rate risk arises from changes in market interest rates that may affect the fair value or future cash flows from the Company's financial assets or liabilities. The Company may partially mitigate its exposure to interest rate changes by holding a mix of both fixed and floating rate debt.

As at June 30, 2014, the Company had no floating rate debt.

Liquidity Risk

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

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $9,155 thousand and dividend payable of $13,754 thousand is less than one year.

19. SUPPLEMENTARY INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL

	For the period from May 27, 2014 to June 30, 2014
Operating Activities	
Accounts receivable and accrued revenues	**$ (10,105)**
Prepaid assets	**(256)**
Accounts payable and accrued liabilities	**3,154**
Share-based compensation payable	**(868)**
Income taxes payable	**4,137**
	$ (3,938)

20. COMMITMENTS AND CONTINGENCIES

Commitments

The following table outlines the Company's commitments as at June 30, 2014:

($ thousands)	Expected Future Payments					
(undiscounted)	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Information technology	**$ 173**	**$ 101**	**$ 3**	**$ -**	**$ -**	**$ 277**
Office lease	**391**	**821**	**287**	**-**	**-**	**1,499**
Commitments	**$ 564**	**$ 922**	**$ 290**	**$ -**	**$ -**	**$ 1,776**

Contingencies

Legal Proceedings

There are no known claims that the Company has determined are subject to accrual or disclosure.

21. RELATED PARTY TRANSACTIONS

Transactions with Encana

The Company has the following related party transactions with Encana:

	For the period from May 27, 2014 to June 30, 2014
Royalties and lease rentals revenues	$ 6,082
Office lease rental	102
Services under transition services agreement	8
	$ 5,972

Amounts recognized on the statement of earnings include:

Revenues	$ 6,082
Administrative	110
	$ 5,972

Amounts recognized on the Balance Sheet include:

	As at June 30, 2014	As at December 31, 2013
Accounts receivable and accrued revenues	$ 926	$ -
Prepaid expense	70	
Dividend payable	(7,427)	-
	$ (6,431)	$ -

Concurrently with completion of the Acquisition and before closing of the IPO, the Company and Encana entered into a number of agreements: (i) Lease Issuance and Administration Agreements pursuant to which the Company will issue leases to document Encana's retention of a working interest in respect of certain Fee Lands purchased in the Acquisition and pursuant to which, the Company will receive royalties from Encana; (ii) TSA pursuant to which Encana will provide or arrange for the provision of certain day-to-day administrative services required by the Company, until December 31, 2014, subject to earlier termination in certain circumstances. These transactions were in the normal course of operations and were measured at the exchange amount.

Transactions with Key Management Personnel

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

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

	For the period from May 27, 2014 to June 30, 2014
Salaries, bonuses, and other benefits	$ 105
Stock options	82
RSUs, PSUs, and DSUs	1,017
Total Compensation	$ 1,204