PrairieSky Royalty Ltd.

Interim Condensed Financial Statements

(unaudited)

For the three and nine month periods ended September 30, 2015

CONDENSED STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME (UNAUDITED)

($ millions, except per share amounts)		Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Revenue					
Royalty revenue		$ 42.1	$ 83.5	$ 130.2	$ 117.7
Other revenue		1.9	7.9	40.0	11.4
Revenue		44.0	91.4	170.2	129.1
Expenses					
Freehold mineral taxes		2.0	3.3	6.6	4.4
Depletion, depreciation and amortization	*(Note 7)*	22.9	8.7	70.9	12.4
Exploration and evaluation	*(Note 8)*	0.8	-	1.3	-
Administrative	*(Note 4)*	5.0	5.7	20.4	8.4
Net Earnings Before Finance Items and Income Taxes		13.3	73.7	71.0	103.9
Finance Items					
Finance income		(0.6)	(0.2)	(1.1)	(0.3)
Finance expense		0.3	-	0.5	0.2
Net Earnings Before Income Tax		13.6	73.9	71.6	104.0
Income tax expense (recovery)	*(Note 5)*	(0.5)	12.7	16.6	18.4
Net Earnings and Comprehensive Income		$ 14.1	$ 61.2	$ 55.0	$ 85.6
Net Earnings per Common Share	*(Note 11)*				
Basic		$ 0.09	$ 0.47	$ 0.36	$ 1.44
Diluted		$ 0.09	$ 0.47	$ 0.36	$ 1.44

See accompanying Notes to Interim Condensed Financial Statements.

CONDENSED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

($ millions)		As at September 30, 2015	As at December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents		**$ 203.8**	$ 63.1
Accounts receivable and accrued revenue	*(Note 6)*	**31.9**	67.1
Prepaid expense		**0.8**	0.4
		236.5	130.6
Royalty assets, net	*(Note 7)*	**502.6**	532.6
Exploration and evaluation assets	*(Note 8)*	**127.5**	107.8
Other assets	*(Note 9)*	**8.5**	11.2
Goodwill		**336.8**	336.8
		$ 1,211.9	$ 1,119.0
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	*(Note 10)*	**$ 14.1**	$ 23.1
Income tax payable		**2.1**	20.3
Dividend payable	*(Note 11)*	**16.9**	15.8
		33.1	59.2
Share-based compensation payable	*(Note 12)*	**2.5**	1.4
Deferred income taxes		**93.0**	94.4
		128.6	155.0
Shareholders' Equity			
Shareholders' capital	*(Note 11)*	**1,392.4**	1,181.0
Reserve from common control		**(255.7)**	(255.7)
Paid in surplus		**1.5**	0.7
Retained earnings (deficit)		**(54.9)**	38.0
Total Shareholders' Equity		**1,083.3**	964.0
Commitments	*(Note 16)*		
Subsequent event	*(Note 17)*		
		$ 1,211.9	$ 1,119.0

See accompanying Notes to Interim Condensed Financial Statements.

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

($ millions)		Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance at December 31, 2014		**$ 1,181.0**	**$ (255.7)**	**$ 0.7**	**$ 38.0**	**$ 964.0**
Net earnings		**-**	**-**	**-**	**55.0**	**55.0**
Common shares issued:						
Under bought deal offering	*(Note 11)*	**198.0**				**198.0**
Share issue costs, net of tax	*(Note 11)*	**(6.2)**				**(6.2)**
Under stock option plan	*(Note 11)*	**0.2**	**-**	**(0.2)**	**-**	**-**
Under dividend reinvestment plan	*(Note 11)*	**13.1**	**-**	**-**	**-**	**13.1**
Under Stock Dividend Program	*(Note 11)*	**5.8**	**-**	**-**	**-**	**5.8**
Pursuant to an acquisition		**0.5**				**0.5**
Share-based compensation	*(Note 12)*	**-**	**-**	**1.0**	**-**	**1.0**
Dividends on common shares	*(Note 11)*	**-**	**-**	**-**	**(147.9)**	**(147.9)**
Balance at September 30, 2015		**$ 1,392.4**	**$ (255.7)**	**$ 1.5**	**$ (54.9)**	**$ 1,083.3**

($ millions)		Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2013		$ -	$ -	$ 0.1	$ -	$ 0.1
Net earnings		-	-	-	85.6	85.6
Common shares issued:						
Share-based compensation		-	-	0.3	-	0.3
Pursuant to the Acquisition	*(Note 1)*	555.7	(255.7)	-	-	300.0
Dividends on common shares	*(Note 11)*	-	-	-	(55.0)	(55.0)
Balance at September 30, 2014		$ 555.7	$ (255.7)	$ 0.4	$ 30.6	$ 331.0

See accompanying Notes to Interim Condensed Financial Statements.

CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

($ millions)		Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Operating Activities					
Net earnings		**$ 14.1**	$ 61.2	**$ 55.0**	$ 85.6
Depletion, depreciation and amortization	*(Note 7)*	**22.9**	8.7	**70.9**	12.4
Exploration and evaluation	*(Note 8)*	**0.8**	-	**1.3**	-
Deferred income taxes	*(Note 5)*	**(2.2)**	(1.3)	**0.9**	0.2
Share-based compensation, net of cash settlements	*(Note 12)*	**-**	0.8	**3.4**	2.0
Non-cash other revenue		**-**	(1.5)	**(16.4)**	(1.4)
Net change in other assets		**0.9**	0.8	**2.7**	1.1
Net change in non-cash working capital	*(Note 15)*	**19.9**	12.2	**7.0**	8.3
Cash From Operating Activities		**56.4**	80.9	**124.8**	108.2
Investing Activities					
Royalty asset acquisitions	*(Note 7)*	**(4.4)**	(9.0)	**(25.1)**	(9.0)
Exploration and evaluation acquisitions	*(Note 8)*	**(0.3)**	(0.9)	**(20.6)**	(0.9)
Cash Used in Investing Activities		**(4.7)**	(9.9)	**(45.7)**	(9.9)
Financing Activities					
Dividends on common shares	*(Note 11)*	**(39.6)**	(41.3)	**(127.8)**	(41.3)
Issuance of common shares		**189.5**	-	**189.5**	-
Financing costs		**-**	-	**(0.1)**	(0.2)
Cash From (Used in) Financing Activities		**149.9**	(41.3)	**61.6**	(41.5)
Increase in Cash and Cash Equivalents		**201.6**	29.7	**140.7**	56.8
Cash and Cash Equivalents, Beginning of Period		**2.2**	27.2	**63.1**	0.1
Cash and Cash Equivalents, End of Period		**$ 203.8**	$ 56.9	**$ 203.8**	$ 56.9

See accompanying Notes to Interim Condensed Financial Statements.

1. NATURE OF OPERATIONS

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") has a portfolio of fee simple mineral title, oil and natural gas gross overriding royalty interests, and other acreage (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 properties 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 revenues as petroleum and natural gas are produced from such properties. PrairieSky carries on business in the provinces of Alberta, Saskatchewan, and British Columbia.

The Company was incorporated under the *Business Corporations Act* (Alberta) under the name 1786071 Alberta Ltd. on November 27, 2013. On April 11, 2014, the Company filed articles of amendment to change its name to "PrairieSky Royalty Ltd.". The Company had no significant operating activity from the date of incorporation until May 27, 2014, when it acquired a royalty business (the "Acquisition"). 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 – 7th 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 period ended December 31, 2014.

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 November 8, 2015.

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 period ended December 31, 2014.

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 the 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 be applied retrospectively, for annual periods beginning on or after January 1, 2018 and early adoption is permitted. The new standard and amendments are not expected to have a material impact on the Company's financial statements.

4. ADMINISTRATIVE EXPENSE

		Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Salaries and benefits		**$ 3.0**	$ 3.4	**$ 10.9**	$ 4.5
Share-based compensation	*(Note 12)*	**-**	0.8	**4.1**	2.0
Office expense		**1.2**	0.7	**3.1**	1.0
Public company expense		**0.2**	0.2	**1.0**	0.3
Information technology and other		**0.6**	0.6	**1.3**	0.6
		$ 5.0	$ 5.7	**$ 20.4**	$ 8.4

5. INCOME TAXES

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Current tax expense	**$ 1.7**	$ 14.0	**$ 15.7**	$ 18.2
Deferred tax expense (recovery)	**(2.2)**	(1.3)	**0.9**	0.2
Income tax expense	**$ (0.5)**	$ 12.7	**$ 16.6**	$ 18.4

For the nine months ended September 30, 2015, deferred tax expense includes $7.0 million attributable to an increase in the Alberta provincial tax rate from 10% to 12% substantively enacted in June 2015.

6. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

		As at September 30, 2015	As at December 31, 2014
Trade receivables and accrued revenue		**$ 28.1**	$ 61.4
Current portion of note receivable	*(Note 9)*	**3.5**	3.7
Freehold mineral taxes receivable		**0.1**	2.0
Interest receivable		**0.2**	-
		$ 31.9	$ 67.1

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 December 31, 2014	$ 67.1	$ 60.7	$ 5.5	$ 0.9
As at September 30, 2015	**$ 31.9**	**$ 29.9**	**$ 1.4**	**$ 0.6**

As at September 30, 2015 and December 31, 2014, 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 receivables and the credit worthiness of the counterparties. See Note 14 for further information about credit risk.

7. ROYALTY ASSETS, NET

	As at September 30, 2015	As at December 31, 2014
Cost		
Net book value, Beginning of Period	**$ 532.6**	$ -
Assets transferred on May 27, 2014	**-**	181.2
Acquisition of Private Co.	**-**	364.6
Transfers from Exploration & Evaluation Assets	**1.6**	-
Other asset acquisitions	**39.3**	11.6
Balance, end of period	**573.5**	557.4
Accumulated Depletion, Depreciation and Amortization		
Depletion, depreciation and amortization	**(70.9)**	(24.8)
Net Book Value, End of Period	**$ 502.6**	$ 532.6

For the three and nine month periods ended September 30, 2015, acquisitions totaled $4.4 million (2014 - $10.6 million) and $39.3 million (May 27, 2014 to September 30, 2014 - $10.6 million), respectively, which primarily included fee land, producing gross overriding royalties and a non-monetary acquisition for gross overriding royalty interests valued at $14.2 million. The acquisitions in 2014 include a $1.6 million non-monetary item related to a nonperformance payment in exchange for a gross overriding royalty.

8. EXPLORATION AND EVALUATION ASSETS

	As at September 30, 2015	As at December 31, 2014
Cost		
Balance, Beginning of Period	**$ 107.8**	$ -
Assets transferred on May 27, 2014	**-**	6.8
Acquisition of Private Co.	**-**	94.8
Transfers to Royalty Assets	**(1.6)**	-
Other asset acquisitions	**22.6**	6.2
Land expiries	**(1.3)**	-
Balance, End of Period	**$ 127.5**	$ 107.8

For the three and nine month periods ended September 30, 2015, the Company acquired $0.8 million (2014 - $0.9 million) and $22.6 million (May 27, 2014 to September 30, 2014 - $0.9 million), respectively, in exploration and evaluation assets, which primarily included seismic assets from a third party oil and gas producer and land acquisitions. Share consideration of $0.5 million was exchanged for a gross overriding royalty ("GORR") acquisition in the current quarter. During the nine month period ended September 30, 2015, the Company exchanged lease issuance bonus proceeds for exploration and evaluation assets valued at $1.5 million, which is included in the $22.6 million noted above.

9. OTHER ASSETS

At September 30, 2015, other assets relates to the non-current portion of a royalty note receivable of $8.5 million, receivable in equal monthly instalments over the next three and a quarter years bearing annual interest of four percent per annum. The current portion of the note receivable of $3.5 million is included in accounts receivable and accrued revenue as disclosed in Note 6. 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 September 30, 2015, the royalty note receivable had a fair value of $12.1 million.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at September 30, 2015	As at December 31, 2014
Trade payables	**$ 2.5**	$ 4.1
Freehold mineral taxes payable	**6.9**	13.9
Accrued liabilities	**4.7**	5.1
	$ 14.1	$ 23.1

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

11. 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.

ISSUED AND OUTSTANDING

	As at September 30, 2015		As at December 31, 2014	
	Number of Shares (millions)	Amount ($ millions)	Number of Shares (millions)	Amount ($ millions)
Common Shares Outstanding, Beginning of Year	**149.3**	**$ 1,181.0**	25.0	$ -
Share consolidation	**-**	**-**	(25.0)	-
Issued pursuant to bought deal offering	**6.3**	**198.0**	-	-
Share Issue Costs, net of tax effect of $2.3 million	**-**	**(6.2)**	-	-
Issued pursuant to stock option exercise	**-**	**0.2**	-	-
Issued under dividend reinvestment plan	**0.6**	**13.1**	-	-
Issued under the stock dividend program	**0.1**	**5.8**	-	-
Issued pursuant to an acquisition *(Note 8)*	**-**	**0.5**	-	-
Issued pursuant to the Acquisition	**-**	**-**	130.0	555.7
Issued pursuant to Acquisition of Private Co.	**-**	**-**	19.3	625.3
Common Shares Outstanding, End of Period	**156.3**	**$ 1,392.4**	149.3	$ 1,181.0

On July 7, 2015, the Company completed a bought deal prospectus offering of common shares. Pursuant to the offering, the Company issued 6.3 million common shares, including 0.6 million common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters at a price of $31.25 per common share for aggregate gross proceeds of $198.0 million and net proceeds of $189.5 million.

DIVIDENDS

On March 17, 2015, the Company announced the approval of a dividend reinvestment plan ("DRIP"), which allows shareholders to direct cash dividends to be reinvested in additional common shares that will be issued at 99% of the volume weighted average price of the common shares traded on the TSX during the last five trading days preceding the relevant dividend payment date or acquired at prevailing market rates.

On April 28, 2015, the Company's shareholders approved a stock dividend program ("SDP"). The SDP enables shareholders to receive dividends in the form of common shares, issued at a 1% discount to a five-day weighted average trading price, in lieu of receiving a cash dividend.

During the three months ended September 30, 2015, PrairieSky paid dividends of $0.32499 per common share totaling $39.6 million. During the nine months ended September 30, 2015, PrairieSky paid dividends of $0.97244 per common share totaling $127.8 million. On September 21, 2015, the Board declared a dividend of $0.10833 per common share payable on October 15, 2015 to common shareholders of record as of September 30, 2015.

For the three and nine months ended September 30, 2015, $10.4 million and $18.9 million (2014 - nil), respectively, of the dividends declared were settled in common shares in lieu of cash dividends under the DRIP and SDP.

EARNINGS PER COMMON SHARE

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

	Three months ended September 30, 2015	Three months ended September 30, 2014	**Nine months ended September 30, 2015**	For the period from May 27, 2014 to September 30, 2014 [1]
Net earnings	**$ 14.1**	$ 61.2	**$ 55.0**	$ 85.6
Number of common shares:				
Weighted average common shares outstanding - Basic	**155.6**	130.0	**151.5**	59.5
Effect of dilutive securities	**0.4**	0.1	**0.4**	0.1
Weighted average common shares outstanding - Diluted	**156.0**	130.1	**151.9**	59.6
Net earnings per common share				
Basic	**$ 0.09**	$ 0.47	**$ 0.36**	$ 1.44
Diluted	**$ 0.09**	$ 0.47	**$ 0.36**	$ 1.44

(1) Basic and diluted weighted average common shares are based on the nine month period ended September 30, 2014.

12. 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.

As at September 30, 2015, the following weighted average assumptions were used to determine the fair value of stock options and share-based units granted by the Company:

Risk free interest rate	1.22%
Dividend yield	4.41%
Expected volatility rate	25%
Forfeiture rate	6.4%
Expected life	5 yrs
Weighted average grant price	$29.82
Market share price	$25.36

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

	Three months ended September 30, 2015	**Three months ended September 30, 2014**	**Nine months ended September 30, 2015**	**For the period from May 27, 2014 to September 30, 2014**
Compensation costs of transactions classified as equity-settled	**$ 0.2**	$ 0.3	**$ 1.0**	$ 0.4
Compensation costs of transactions classified as cash-settled	**(0.2)**	0.5	**3.1**	1.6
Total share-based compensation expense	**$ -**	$ 0.8	**$ 4.1**	$ 2.0

As at September 30, 2015, the liability for share-based payment transactions totaled $4.4 million.

	As at September 30, 2015	**As at December 31, 2014**
Liability for unvested cash-settled plans	**$ 2.5**	$ 1.4
Liability for vested cash-settled plans	**1.9**	0.7
Liability for cash-settled plans	**$ 4.4**	$ 2.1

The following outlines certain information related to the Company's compensation plans as at September 30, 2015:

C) 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 of Stock Options (thousands)	**September 30, 2015**	December 31, 2014
Issued and Outstanding, Beginning of Period	**511.5**	-
Granted	**304.1**	529.0
Exercised	**(60.5)**	-
Forfeited	**(10.5)**	(17.5)
Issued and Outstanding, End of Period	**744.6**	511.5

The following table summarizes information regarding stock options outstanding at September 30, 2015:

Range Of Exercise Prices Per Common Share	Number of options outstanding	Weighted average remaining vesting period (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable	Weighted average exercise price for options exercisable ($/share)	Weighted average fair value for options outstanding ($/share)
$28.00-$39.03	744,602	1.08	29.82	-	-	3.95

For the three and nine months ended September 30, 2015, administrative expense includes $0.2 million (2014 - $0.3 million) and $1.0 million (May 27, 2014 to September 30, 2014 - $0.4 million), respectively, of compensation costs related to stock options.

D) PERFORMANCE SHARE UNITS

The following table summarizes information related to the PSUs:

Outstanding PSUs (thousands of units)	**September 30, 2015**	December 31, 2014
Outstanding, Beginning of Period	**67.8**	-
Granted	**70.0**	66.4
Deemed Eligible to Vest	**(16.5)**	-
Units, in Lieu of Dividends	**3.2**	1.4
Issued and Outstanding, End of Period	**124.5**	67.8

For the three and nine months ended September 30, 2015, the Company recorded a compensation recovery of $0.1 million (2014 - $0.3 million expense) and $1.2 million of expense (May 27, 2014 to September 30, 2015 - $0.4 million), respectively, related to outstanding PSUs. The remaining weighted average life is 2.1 years.

E) RESTRICTED SHARE UNITS

The following table summarizes information related to the RSUs:

Outstanding RSUs (thousands of units)	**September 30, 2015**	December 31, 2014
Issued and Outstanding, Beginning of Period	**112.3**	
Granted	**123.0**	124.3
Deemed eligible to vest	**(9.1)**	-
Units, in lieu of dividends	**5.2**	2.4
Forfeited	**(34.3)**	(14.4)
Issued and Outstanding, End of Period	**197.1**	112.3

For the three and nine months ended September 30, 2015, the Company recorded compensation costs of $0.1 million (2014 - $0.4 million) and $1.5 million (May 27, 2014 to September 30, 2014 - $0.5 million), respectively, related to outstanding RSUs. The remaining weighted average life is 1.7 years.

F) DEFERRED SHARE UNITS

For the three and nine months period ended September 30, 2015, 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:

Outstanding DSUs (thousands of units)	**September 30, 2015**	December 31, 2014
Issued and Outstanding, Beginning of Period	**22.8**	-
Granted	**18.8**	22.3
Units, in lieu of dividends	**1.3**	0.5
Issued and Outstanding, End of Period	**42.9**	22.8

For the three and nine months ended September 30, 2015, the Company recorded a compensation recovery of $0.2 million (2014 - recovery of $0.2 million) and $0.4 million of expense (May 27, 2014 to September 30, 2014 - $0.7 million), respectively, related to outstanding DSUs.

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.

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 September 30, 2015	**As at December 31, 2014**
Shareholders' equity	**$ 1,083.3**	$ 964.0
Working capital	**203.4**	71.4

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.

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

Interest Rate Risk

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

As at September 30, 2015, the Company had no interest bearing liabilities. The Company's royalty note receivable (Note 9) earns interest at a fixed rate.

Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. A substantial portion of the Company's accounts receivable are from royalty agreements with oil and gas industry operators and are subject to normal industry credit risks. The Company's diversified revenue stream limits the size of any one property or industry operator with respect to total receivables and the Company has the ability to "take in kind" royalty volumes which further assist in managing collection and credit risk.

As at September 30, 2015, there was one counterparty whose accounts receivable individually accounted for more than 10% of the total accounts receivable balance. The maximum credit risk exposure associated with accounts receivable and accrued revenue is the total carrying value. For the periods presented, the Company 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 its financial liabilities as they come due. The Company manages its liquidity risk using cash and debt management programs. The Company has unused capacity under its Credit Facility, described below, for up to $150 million.

The timing of expected cash outflows relating to accounts payable and accrued liabilities of $14.1 million, income tax payable of $2.1 million, and dividend payable of $16.9 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 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. 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 September 30, 2015, the Credit Facility is undrawn.

15. SUPPLEMENTARY INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Operating Activities				
Accounts receivable and accrued revenue	**$ 16.5**	$ (8.7)	**$ 35.7**	$ (18.8)
Prepaid assets	**0.2**	0.1	**(0.4)**	(0.2)
Accounts payable and accrued liabilities	**1.1**	6.7	**(10.1)**	9.1
Income taxes payable	**2.1**	14.1	**(18.2)**	18.2
	$ 19.9	$ 12.2	**$ 7.0**	$ 8.3

SUPPLEMENTARY CASH FLOW INFORMATION

	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	For the period from May 27, 2014 to September 30, 2014
Interest Paid	**$ 0.1**	$ -	**$ 0.3**	$ -
Interest Received	**0.6**	0.2	**1.1**	0.3
Income Taxes Paid (Recovered)	**(3.0)**	-	**33.9**	-

16. COMMITMENTS

The following table outlines the Company's commitments as at September 30, 2015:

($ millions)	Expected Future Payments						
(undiscounted)	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Office lease commitments	**$ 0.7**	**$ 1.7**	**$ 1.4**	**$ 1.4**	**$ 1.3**	**$ 5.8**	**$12.3**

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 $0.1 million and $3.3 million, respectively.

17. SUBSEQUENT EVENT

On November 8, 2015, the Company entered into a purchase and sale agreement with a third party to acquire royalty assets (the "Royalty Assets") for cash consideration of $680 million and the issuance of 44.4 million common shares of the Company at a deemed price of $25.20 per common share for an aggregate purchase price of $1.8 billion, prior to customary closing adjustments. The Royalty Asset acquisition is subject to shareholder approval and is expected to close on or about December 16, 2015. In conjunction with the acquisition, the Company has entered into a $680 million non-brokered private placement subscription receipt financing which is subject to customary closing conditions including receipt of applicable regulatory approvals and is expected to close on or about December 2, 2015.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

(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

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

AUDITORS

KPMG LLP

BANKERS

Toronto-Dominion Bank
Royal Bank of Canada

TORONTO STOCK EXCHANGE TRADING SYMBOL

PSK

INDEPENDENT RESERVE EVALUATORS

GLJ Petroleum Consultants Ltd.

TRANSFER AGENT

TMX Equity Transfer Services

ABBREVIATIONS

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

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