PrairieSky Royalty Ltd.

Financial Statements

For the year ended December 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of PrairieSky Royalty Ltd.

We have audited the accompanying financial statements of PrairieSky Royalty Ltd., which comprise the statements of financial position as at December 31, 2015 and December 31, 2014, the statements of earnings and comprehensive income and cash flows for the year ended December 31, 2015 and for the period from May 27, 2014 to December 31, 2014, the statement of changes in shareholders' equity for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PrairieSky Royalty Ltd. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and for the period from May 27, 2014 to December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

February 29, 2016
Calgary, Canada

STATEMENT OF EARNINGS AND COMPREHENSIVE INCOME

($ millions, except per share amounts)		For the year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Revenues			
Royalty revenue		**$ 168.5**	$ 180.2
Other revenue		**46.5**	18.5
Revenue		**215.0**	198.7
Expenses			
Freehold mineral taxes		**8.5**	5.7
Depreciation, depletion and amortization	*(Note 9)*	**96.3**	24.8
Exploration and evaluation	*(Note 10)*	**2.2**	-
Gain on disposition		**(0.1)**	-
Administrative	*(Note 6)*	**27.1**	16.0
Net Earnings Before Finance Items and Income Taxes		**81.0**	152.2
Finance Items			
Finance income		**(1.8)**	(0.7)
Finance expense		**0.6**	0.3
Net Earnings Before Income Tax		**82.2**	152.6
Income tax expense	*(Note 7)*	**19.2**	16.3
Net Earnings and Comprehensive Income		**$ 63.0**	$ 136.3
Net Earnings per Common Share	*(Note 14)*		
Basic and Diluted		**$ 0.40**	$ 1.75

See accompanying Notes to Financial Statements

STATEMENT OF FINANCIAL POSITION

($ millions)		As at December 31, 2015	As at December 31, 2014
Assets			
Current Assets			
Cash and cash equivalents		**$ 190.8**	$ 63.1
Accounts receivable and accrued revenue	*(Note 8)*	**36.4**	67.1
Income tax receivable		**21.4**	-
Prepaid expense		**0.6**	0.4
		249.2	130.6
Royalty Assets, net	*(Note 9)*	**918.6**	532.6
Exploration and Evaluation Assets	*(Note 10)*	**1,148.4**	107.8
Other Assets	*(Note 11)*	**7.6**	11.2
Goodwill	*(Note 12)*	**614.4**	336.8
		$ 2,938.2	$ 1,119.0
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	*(Note 13)*	**$ 14.2**	$ 23.1
Income tax payable		**-**	20.3
Dividend payable	*(Note 14)*	**24.7**	15.8
		38.9	59.2
Share-based Compensation Payable	*(Note 15)*	**2.8**	1.4
Deferred Income Taxes	*(Note 7)*	**186.3**	94.4
		228.0	155.0
Shareholders' Equity			
Shareholders' capital	*(Note 14)*	**3,067.8**	1,181.0
Reserve from common control	*(Note 5)*	**-**	(255.7)
Paid in surplus		**1.8**	0.7
Retained earnings (deficit)		**(359.4)**	38.0
Total Shareholders' Equity		**2,710.2**	964.0
Commitments	*(Note 19)*		
		$ 2,938.2	$ 1,119.0

See accompanying Notes to Financial Statements

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

(signed) "James M. Estey"

Director

(signed) "Margaret A. McKenzie"

Director

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

($ millions)		Shareholders' Capital	Reserve from Common Control	Paid In Surplus	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance at December 31, 2014		**$ 1,181.0**	**$ (255.7)**	**$ 0.7**	**$ 38.0**	**$ 964.0**
Net earnings		**-**	**-**	**-**	**63.0**	**63.0**
Common shares issued:						
Pursuant to bought deal offering	*(Note 14)*	**198.0**	**-**	**-**	**-**	**198.0**
Share issue costs, net of tax	*(Note 14)*	**(6.9)**	**-**	**-**	**-**	**(6.9)**
Pursuant to stock option plan	*(Note 14)*	**0.2**	**-**	**(0.2)**	**-**	**-**
Pursuant to dividend reinvestment plan	*(Note 14)*	**24.0**	**-**	**-**	**-**	**24.0**
Pursuant to stock dividend program	*(Note 14)*	**6.3**	**-**	**-**	**-**	**6.3**
Pursuant to an acquisition	*(Note 10)*	**0.5**	**-**	**-**	**-**	**0.5**
Pursuant to the Transaction	*(Note 4A)*	**984.9**	**-**	**-**	**-**	**984.9**
Pursuant to private placement offering	*(Note 14)*	**679.8**	**-**	**-**	**-**	**679.8**
Share-based compensation	*(Note 15)*	**-**	**-**	**1.3**	**-**	**1.3**
Dividends on common shares	*(Note 14)*	**-**	**-**	**-**	**(206.5)**	**(206.5)**
Purchase adjustment		**-**	**1.8**	**-**	**-**	**1.8**
Elimination of reserve from common control	*(Note 5)*	**-**	**253.9**	**-**	**(253.9)**	**-**
Balance at December 31, 2015		**$ 3,067.8**	**$ -**	**$ 1.8**	**$ (359.4)**	**$ 2,710.2**

($ 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		-	-	-	136.3	136.3
Common shares issued:						
Pursuant to the Acquisition	*(Note 5)*	555.7	(255.7)	-	-	300.0
Pursuant to Private Co. Acquisition	*(Note 4B)*	625.3	-	-	-	625.3
Share-based compensation	*(Note 15)*	-	-	0.6	-	0.6
Dividends on common shares	*(Note 14)*	-	-	-	(98.3)	(98.3)
Balance at December 31, 2014		$ 1,181.0	$ (255.7)	$ 0.7	$ 38.0	$ 964.0

See accompanying Notes to Financial Statements

STATEMENT OF CASH FLOWS

($ millions)		For the year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Operating Activities			
Net earnings		**$ 63.0**	$ 136.3
Depreciation, depletion and amortization	*(Note 9)*	**96.3**	24.8
Exploration and evaluation	*(Note 10)*	**2.2**	-
Gain on disposition		**(0.1)**	-
Deferred income taxes	*(Note 7)*	**26.5**	(4.0)
Share-based compensation, net of cash settlements	*(Note 15)*	**3.7**	2.7
Non-cash other revenue		**(17.4)**	(2.9)
Net change in other assets		**3.6**	2.0
Net change in non-cash working capital	*(Note 18)*	**(9.7)**	26.0
Cash From Operating Activities		**168.1**	184.9
Investing Activities			
Royalty asset acquisitions	*(Note 9)*	**(30.7)**	(10.0)
Exploration and evaluation acquisitions	*(Note 10)*	**(25.2)**	(4.7)
Royalty business combination	*(Note 4A)*	**(686.6)**	-
Disposition		**0.2**	-
Net change in non-cash working capital	*(Note 18)*	**0.6**	-
Cash Used in Investing Activities		**(741.7)**	(14.7)
Financing Activities			
Dividends on common shares	*(Note 14)*	**(167.2)**	(82.5)
Issuance of common shares, net of issue costs	*(Note 14)*	**868.3**	-
Debt repayment		**-**	(24.5)
Financing costs		**(0.1)**	(0.2)
Net change in non-cash working capital	*(Note 18)*	**0.3**	-
Cash From (Used in) Financing Activities		**701.3**	(107.2)
Increase in Cash and Cash Equivalents		**127.7**	63.0
Cash and Cash Equivalents, Beginning of Year		**63.1**	0.1
Cash and Cash Equivalents, End of Year		**$ 190.8**	$ 63.1

See accompanying Notes to Financial Statements

1. NATURE OF OPERATIONS

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

The Company 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”) from Encana Corporation (“Encana”). The amounts acquired are comprised of: (i) fee simple mineral title in lands prospective for petroleum, natural gas liquids and certain other mineral rights located predominantly in central and southern Alberta; (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 (“GORR”) and production payments on lands located predominantly in Alberta; (iv) an irrevocable, perpetual license to certain proprietary seismic data of Encana; and (v) certain other related assets as set forth in the purchase and sale agreement between the Company and Encana (collectively, the “Acquired Business”).

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

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

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

These Financial Statements were approved and authorized for issuance by the Company’s Board of Directors on February 29, 2016.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical Judgments in Applying Accounting Policies

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

The identification of cash generating units ("CGUs") requires judgment. CGUs are defined as the lowest level of integrated assets for which there are separately identifiable cash flows that are largely independent of cash flows from other assets or groups of assets. The classification of assets and allocation of corporate assets into CGUs requires judgment and interpretation. Factors considered in the classification include how management monitors the entity's operations, how management makes decisions about continuing or disposition of assets and operations, and the nature of the assets.

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required with respect to the carrying value of long-lived assets.

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

Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3, "Business Combinations". Business combinations are accounted for using the acquisition method of accounting and are differentiated from an asset acquisition when business processes are associated with the assets.

Judgments include which valuation model is most appropriate to estimate fair value of awards granted under the Company's various long-term incentive plans. Estimates and assumptions are then used in the valuation model to determine the fair value.

Critical Accounting Estimates

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

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

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in the period of change and future periods. Deferred income tax assets are recognized to the extent future recovery is probable. Deferred income tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

The Company follows the accrual method of accounting, making estimates in its financial and operating results. This may include estimates of production, royalty revenue and related expenses for the period reported, for which actual results have not yet been received. The Company has no operational control over the Fee Lands and as a result, the Company uses historical production information to estimate revenue accruals. These accrual estimates are expected to be revised, based on the receipt of actual production results.

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

B) FUNCTIONAL AND PRESENTATION CURRENCY

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

C) REVENUE RECOGNITION

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

Other revenue is comprised of all non-product related revenue streams, including revenue generated from lease rentals, bonus consideration received when new leases are negotiated and penalty payments for non-performance under required lease conditions. Revenue from each of these streams is recognized when the consideration is received or collection is certain.

D) FREEHOLD MINERAL TAXES

Mineral taxes relate to payments made to provincial governments based on acreage or production of crude oil and natural gas on non-government owned lands and are recognized when the product is produced.

E) SHARE-BASED COMPENSATION

The Company's long term incentive plans include a Stock Option Plan, Restricted Share Unit ("RSU") Plan, Performance Share Unit ("PSU") Plan, and a Deferred Share Unit ("DSU") Plan. Obligations for payments of cash or common shares under the Company's long term incentive plans are accrued over the vesting period using fair values.

For the equity-settled Stock Option Plan, fair values are determined at the grant date and are recognized over the vesting period as compensation costs with a corresponding credit to shareholders' equity. The Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. The assumptions used by the Company are discussed in Note 15.

For the RSU, PSU and DSU Plans, fair values are determined at each reporting date based on the market value of the Company's common shares and are recognized over the vesting period as compensation costs, with a corresponding credit to liabilities. Changes in the fair values are recognized as compensation costs in the period they occur. Judgment is also required to estimate the number of RSUs that will ultimately vest.

F) INCOME TAXES

Income tax is recognized in net earnings except for items directly related to shareholders' equity, in which case it is recognized in equity or other comprehensive income. Current income taxes are measured at the amount expected to be recoverable from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period.

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

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

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

- the initial recognition of goodwill; or

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

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

G) EARNINGS PER SHARE AMOUNTS

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

H) CASH AND CASH EQUIVALENTS

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

I) EXPLORATION AND EVALUATION

Exploration and evaluation ("E&E") assets consist of expenditures incurred in an exploration area pending the determination of technical feasibility and commercial viability. These costs include unproved property acquisition costs, undeveloped land, mineral leases, seismic costs, and the carrying values of E&E assets transferred with the Acquisition.

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

J) ROYALTY ASSETS

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

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

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

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

K) BUSINESS COMBINATIONS

Business combinations within the scope of IFRS 3 are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value and the tax basis of net assets acquired. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred. When a business combination includes a non-controlling interest, the non-controlling interest is initially measured based on either its fair value or its proportionate share of the fair value of identifiable net assets acquired.

In connection with the Acquisition described in Notes 1 and 5, the Company was a wholly owned subsidiary and controlled by Encana prior to closing the Initial Public Offering ("IPO"), and immediately subsequent to closing (see Note 5). Business combinations involving entities under common control are outside the scope of IFRS 3 "Business Combinations". IFRS provides no guidance on the accounting for these types of transactions. As a result, the Company was required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. Management determined that the predecessor values from date of transaction method to be the most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without an adjustment to fair value. The difference between any consideration given and the aggregate carrying value of the assets and liabilities acquired, was recorded as a reserve from common control in shareholders' equity and collapsed into retained earnings in 2015.

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. E&E assets are also reviewed for impairment indicators and assessed for impairment upon reclassification from E&E assets to royalty assets. If indicators of impairment exist, the recoverable amount of the asset or CGU is estimated. If the carrying value of the asset or CGU exceeds the recoverable amount, the asset or CGU is written down with an impairment recognized in net earnings. A CGU is the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other CGUs. Based on the interdependency of the cash flows, costs capitalized in areas within royalty assets and E&E assets are aggregated into one CGU.

The recoverable amount of an asset or CGU is the greater of its fair value less costs of disposal or its value in use. Fair value less costs of disposal is the amount obtainable from the sale of assets in an arm's length transaction less costs of disposal. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the CGU.

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

M) GOODWILL

Goodwill represents the excess of consideration paid over the fair value of acquired assets and assumed liabilities recognized in a business combination. Subsequent measurement of goodwill is at cost less any accumulated impairments.

Goodwill is assessed for impairment at least annually. If the 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 based on the greater of fair value less costs of disposal or value in use. Fair value less costs of disposal is the amount obtainable from the sale of assets in an arm's length transaction less costs of disposal. Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the CGU. Goodwill impairments are not reversed.

N) PROVISIONS AND CONTINGENCIES

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

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

O) FINANCIAL INSTRUMENTS

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

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

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

P) FAIR VALUE MEASUREMENTS

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

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

The fair value of royalty assets recognized in a business combination is based on market values. The market value of royalty assets is the estimated amount for which royalty assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and with compulsion. The market value of royalty assets are estimated with reference to the cash flow multiples from production based on cash flow multiples of the same or similar assets, or are based on estimates of the reserves acquired. The market value of E&E assets are estimated with reference to the market values of current arm’s length transactions in comparable locations. The assumptions and estimates with respect to determining the fair value of PP&E and E&E assets in a business combination generally include estimates of reserves acquired, forecast benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill. Future net earnings can be affected as a result of changes in future DD&A, asset impairment or goodwill impairment.

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

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

Q) RECENT ACCOUNTING PRONOUNCEMENTS

New Standards Issued Not Yet Adopted

On May 28, 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" which is the result of the joint project with Financial Accounting Standards Board ("FASB"). The new standard replaces the two main recognition standards IAS 18, "Revenue" and IAS 11, "Construction Contracts". The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue and becomes effective January 1, 2018. The Company is currently assessing the potential impact of the standard on the Company's Financial Statements.

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

4. BUSINESS COMBINATIONS

A) 2015

On December 16, 2015, the Company completed an acquisition of royalty properties from a third party ("the Transaction") for cash consideration of $680.0 million, subject to closing adjustments, and the issuance of 44.4 million common shares at the December 16, 2015 share price of $22.16 per share. To finance a portion of the purchase price, PrairieSky completed a non-brokered private placement of 26,976,000 subscription receipts at a price of $25.20 per subscription receipt on December 2, 2015 for gross proceeds of $679.8 million. The subscription receipts converted to common shares on December 16, 2015 concurrently with closing the Transaction. The effective date of the Transaction was October 1, 2015.

The following table summarizes the net assets acquired and liabilities assumed. The fair value of the common shares issued approximates the fair value of the net assets acquired.

Consideration:		
Issuance of 44.4 million common shares of PrairieSky	$	984.9
Cash consideration		680.0
Closing adjustments		(3.3)
Total Consideration	$	1,661.6

Net Assets Acquired:		
Royalty assets	$	435.3
Exploration and evaluation assets		1,016.7
Goodwill		277.6
Deferred income taxes		(68.0)
Net assets acquired	$	1,661.6

The value attributed to the royalty assets acquired was determined with reference to an engineering report prepared by third party reserve evaluators using proved plus probable reserves discounted at approximately 5%.

The value attributed to the exploration and evaluation assets was determined with reference to recent undeveloped land acquisitions in close proximity to the interests purchased, along with consideration of future development potential for the acquired lands.

The goodwill is attributed to the upside potential in the lands from future technological advances, unidentified drilling locations, and synergies achieved from integrating the royalty assets from two of the largest fee simple mineral title and royalty positions in Western Canada into a single Canadian enterprise, creating the largest independent oil and natural gas royalty position in Western Canada. The Transaction is consistent with PrairieSky's strategy of seeking additional petroleum and natural gas royalty assets that are near term accretive to shareholders along with adding medium to long term value enhancement potential through all commodity cycles.

Transaction costs of $0.7 million are included in administrative expenses.

From the date of acquisition, December 16, 2015, to December 31, 2015, approximately $2.3 million of revenue and approximately $1.3 million of net loss were recognized. If the Transaction had been effective on January 1, 2015, management estimates that pro forma revenue and pro forma net income for the year would have been approximately $290.1 million and $72.7 million, respectively. In calculating the pro forma information, the results of the Transaction for the period before acquisition have been adjusted for fair value adjustments recorded on acquisition.

B) 2014

Acquisition of Private Co.

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

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

During the year ended December 31, 2015, measurement period adjustments subsequent to the acquisition date resulted in an increase in acquired working capital of $2.4 million, a decrease to goodwill of $1.1 million and an increase to the deferred tax liability of $1.3 million. The adjustments represent new information relating to estimates originally made in the preliminary determination of values. The Company does not anticipate any further adjustment in subsequent periods.

Consideration:		
Issuance of 19.3 million common shares of PrairieSky	**$**	625.3

Net Assets Acquired:		
Net working capital	$	9.8
Royalty assets		364.6
Exploration and evaluation assets		94.8
Debt		(24.5)
Goodwill		279.0
Deferred income taxes		(98.4)
Net Assets Acquired	$	625.3

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

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

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

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

Transaction costs of $1.6 million are included in administrative expenses.

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

C) Other Acquisition

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

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

5. COMMON CONTROL TRANSACTION

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

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

Carrying value of net assets acquired:		
Net working capital	$	37.7
Royalty assets, net		181.2
Exploration and evaluation assets		6.8
Other assets		16.5
Goodwill		57.8
	$	300.0

The difference between the common share consideration of $555.7 million and the carrying value of the Acquired Business of $300.0 million is recognized as a reserve from common control in shareholders' equity, as follows:

Common shares	*(Note 14)*	$	555.7
Carrying value of net assets acquired			(300.0)
Reserve from Common Control		$	255.7

At December 31, 2015, the reserve from common control was eliminated and reclassified against the deficit.

6. ADMINISTRATIVE EXPENSE

		For the year ended December 31, 2015	**For the period May 27, 2014 to December 31, 2014**
Salaries and benefits		**$ 13.9**	$ 7.9
Share-based compensation	*(Note 15)*	**4.7**	2.7
Office expense		**4.8**	1.7
Public company expense		**1.2**	0.9
Information technology and other		**1.8**	1.2
Transaction costs	(*Note 4)*	**0.7**	1.6
Administrative Expense		**$ 27.1**	$ 16.0

7. INCOME TAXES

	For the year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Current tax expense (recovery)	**$ (7.3)**	$ 20.3
Deferred tax expense (recovery)	**26.5**	(4.0)
Income tax expense	**$ 19.2**	$ 16.3

For the year ended December 31, 2015, deferred tax expense includes an increase in the Alberta provincial tax rate from 10% to 12% effective July 1, 2015.

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

	For the year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Net Earnings Before Income Tax	**$ 82.2**	$ 152.6
Canadian Statutory Rate	**26.0%**	25.0%
Expected Income Tax	**21.4**	38.2
Effect on Taxes Resulting From:		
Permanent Differences	**(10.2)**	(22.1)
Statutory Rate Difference	**7.7**	0.1
Other	**0.3**	0.1
Income tax expense	**$ 19.2**	$ 16.3

Under the terms of the Acquisition (Notes 1 and 5), the Company acquired tax pools in the amount of approximately $500 million. The Company has not recognized tax deductible temporary differences of $184.3 million as at December 31, 2015 (December 31, 2014 - $225.3 million) related to the excess of tax pools acquired over the carrying value of net assets transferred because the common control transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 "Income Taxes". Deferred income tax assets and liabilities are not recognized for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable benefit. The unrecognized deferred income tax asset is being amortized based on the net tax pool claims calculated for the period. The reversal of the unrecognized deferred tax asset for the year ended December 31, 2015 was $10.3 million (May 27, 2014 to December 31, 2014 - $22.0 million).

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

	Balance, December 31, 2014	Recognized in net income	Recognized directly in equity	Acquired in Business Combination	Balance, December 31, 2015
Royalty and E&E assets	**$ 95.6**	**$ 26.8**	**$ -**	**$ 68.0**	**$ 190.4**
Non-capital loss carry forwards	**(0.7)**	**(0.1)**	**-**	**-**	**(0.8)**
Share-based compensation	**(0.5)**	**(0.7)**	**-**	**-**	**(1.2)**
Share issue costs	**-**	**0.5**	**(2.6)**	**-**	**(2.1)**
Total	**$ 94.4**	**$ 26.5**	**$ (2.6)**	**$ 68.0**	**$ 186.3**

	Balance, May 27, 2014	Recognized in net income	Acquired in Business Combination	Balance, December 31, 2014
Royalty and E&E assets	$ -	$ (3.5)	$ 99.1	$ 95.6
Non-capital loss carry forwards	-	-	(0.7)	(0.7)
Share-based compensation	-	(0.5)	-	(0.5)
Total	$ -	$ (4.0)	$ 98.4	$ 94.4

8. ACCOUNTS RECEIVABLE AND ACCRUED REVENUE

		As at December 31, 2015	As at December 31, 2014
Trade receivables and accrued revenue		**$ 32.1**	$ 61.4
Current portion of royalty note receivable	*(Note 11)*	**3.6**	3.7
Freehold mineral taxes receivable		**0.5**	2.0
Interest receivable		**0.2**	-
		$ 36.4	$ 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:

			Past due but not impaired	
	Total	Neither past due nor impaired	4 - 6 Months	7- 12 Months
As at December 31, 2015	**$ 36.4**	**$ 35.8**	**$ 0.4**	**$ 0.2**
As at December 31, 2014	$ 67.1	$ 60.7	$ 5.5	$ 0.9

At December 31, 2015, 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 17 for further information about credit risk.

9. ROYALTY ASSETS, NET

		Year ended December 31, 2015	May 27, 2014 to December 31, 2014
Cost			
Balance, Beginning of Year		**$ 557.4**	$ -
Assets acquired in Transaction	*(Note 4A)*	**435.3**	-
Assets transferred on May 27, 2014	*(Note 5)*	**-**	181.2
Acquisition of Private Co.	*(Note 4B)*	**-**	364.6
Transfers from exploration & evaluation assets	*(Note 10)*	**2.1**	-
Other asset acquisitions		**44.9**	11.6
Balance, End of Year		**1,039.7**	557.4
Accumulated Depletion, Depreciation and Amortization			
Balance, Beginning of Year		**(24.8)**	-
Depletion, depreciation and amortization		**(96.3)**	(24.8)
Balance, End of Year		**(121.1)**	(24.8)
Net Book Value, End of Year		**$ 918.6**	$ 532.6

For the year ended December 31, 2015, acquisitions totaled $480.2 million (May 27, 2014 to December 31, 2014 - $376.2 million) which primarily include the Transaction and other acquisitions, including fee land, producing gross overriding royalties and a non-monetary acquisition of gross overriding royalty interests valued at $14.2 million. The acquisitions in 2014 include a $1.6 million non-monetary item related to a non-performance payment in exchange for a gross overriding royalty.

10. EXPLORATION AND EVALUATION ASSETS

		Year ended December 31, 2015	May 27, 2014 to December 31, 2014
Cost			
Balance, Beginning of Year		**$ 107.8**	$ -
Assets acquired in Transaction	*(Note 4A)*	**1,016.7**	-
Assets transferred on May 27, 2014	*(Note 5)*	**-**	6.8
Acquisition of Private Co.	*(Note 4B)*	**-**	94.8
Transfers to Royalty Assets	*(Note 9)*	**(2.1)**	-
Other asset acquisitions		**28.2**	6.2
Land expiries		**(2.2)**	-
Balance, End of Year		**$ 1,148.4**	$ 107.8

For the year ended December 31, 2015, the Company acquired $1,044.9 million (May 27, 2014 to December 31, 2014 - $101.0 million) in E&E assets, which primarily include the Transaction and other acquisitions, including seismic assets from a third party oil and gas producer and land acquisitions. Other asset acquisitions of $28.2 million included the following non-monetary transactions: share consideration of $0.5 million was exchanged on a GORR acquisition, the Company exchanged lease issuance bonus proceeds for E&E assets valued at $1.5 million, and a non-monetary $1.0 million non-performance payment was exchanged for a gross overriding royalty.

11. OTHER ASSETS

At December 31, 2015, other assets relates to the non-current portion of a royalty note receivable of $7.6 million (2014 - $11.2 million), receivable in equal monthly instalments over the next three years bearing annual interest of four percent per annum. The current portion of the note receivable of $3.6 million (2014 - $3.7 million) is included in accounts receivable and accrued revenue as disclosed in Note 8. The estimated fair value of other assets is categorized within Level 2 of the fair value hierarchy and has been determined based on market information where available using estimated interest rates based on the credit quality of the customer. During the year ended December 31, 2015, $0.5 million (May 27, 2014 to December 31, 2014 - $0.4 million) of interest income was recorded related to the royalty note receivable. As at December 31, 2015, the royalty note receivable had a fair value of $11.1 million (2014 - $14.6 million).

12. GOODWILL

In 2015, the Company recognized goodwill of $277.6 million in conjunction with the Transaction described in Note 4A. Goodwill is assessed for impairment at least annually. The recoverable amount of the Company's sole CGU used to assess goodwill was determined using fair value less costs of disposal. Fair value less costs of disposal was estimated for the CGU using cash flow multiples from production of same or similar assets. The impairment test of goodwill at December 31, 2015 concluded that the estimated recoverable amount exceeded the carrying amount of the CGU. As such, no goodwill impairment existed. There have been no changes to the valuation technique during the year. At December 31, 2015, the market capitalization of the Company was $5.0 billion.

Goodwill		As at December 31, 2015	As at December 31, 2014
Balance, Beginning of period		**$ 336.8**	$ -
Acquired in the Transaction	*(Note 4A)*	**277.6**	-
Assets transferred on May 27, 2014	*(Note 5)*	**-**	57.8
Acquisition of Private Co.	*(Note 4B)*	**-**	279.0
Balance, End of period		**$ 614.4**	$ 336.8

The key assumption used in the estimation of the recoverable amount is a cash flow multiple of eight to ten times cash flow. The value assigned to the key assumption represents management's assessment of recent historical data from both internal and external sources, as well as future cash flow multiples anticipated in future transactions.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2015	As at December 31, 2014
Trade payables	**$ 1.9**	$ 4.1
Freehold mineral taxes payable	**9.4**	13.9
Accrued liabilities	**2.9**	5.1
	$ 14.2	$ 23.1

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

14. SHARE CAPITAL

AUTHORIZED

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

ISSUED AND OUTSTANDING

		As at December 31, 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 financing		**6.3**	**198.0**	-	-
Share issue costs, net of tax effect of $2.6 million		**-**	**(6.9)**	-	-
Issued under dividend reinvestment plan		**1.1**	**24.0**	-	-
Issued under the stock dividend program		**0.1**	**6.3**	-	-
Issued pursuant to an acquisition	*(Note 10)*	**-**	**0.5**	-	-
Issued pursuant to the Transaction	*(Note 4A)*	**44.4**	**984.9**	-	-
Issued pursuant to the private placement	*(Note 4A)*	**27.0**	**679.8**	-	-
Issued pursuant to stock option exercise		**-**	**0.2**	-	-
Issued pursuant to the Acquisition	*(Note 5)*	**-**	**-**	130.0	555.7
Issued pursuant to Acquisition of Private Co.	*(Note 4B)*	**-**	**-**	19.3	625.3
Common Shares Outstanding, End of Year		**228.2**	**$ 3,067.8**	149.3	$ 1,181.0

COMMON SHARES

A) 2015

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.

On December 2, 2015, PrairieSky issued 27.0 million subscription receipts at a price of $25.20 per subscription receipt by way of a private placement to certain investors for aggregate gross proceeds of $679.8 million and net proceeds of $678.8 million. In conjunction with the closing to the Transaction, each holder of the subscription receipts received one common share of PrairieSky for each subscription receipt held.

On December 16, 2015, PrairieSky issued 44.4 million common shares to a third party as partial consideration for the Transaction. See Note 4A for additional information.

B) 2014

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

Share Consolidation

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

Acquisition of Royalty Business

On May 22, 2014, the Company and Encana entered into a purchase and sale agreement for the acquisition of the Acquired Business from Encana, pursuant to which Encana received 129.994 million common shares as consideration. Under the purchase and sale agreement, the legal stated capital maintained by the Company for the common shares issued to Encana was $555.7 million comprised of the following:

	Amount ($ millions)
Tax pools	$ 500.0
Working capital	37.7
Royalty note receivable	16.5
Other	1.5
Stated Capital	**$ 555.7**

Initial Public Offering

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

On May 29, 2014, the Company and Encana entered into, among other agreements: (i) a Governance Agreement, which governed various aspects of the relationship; and (ii) an Investor Liquidity Agreement, which provided Encana or its transferee the ability to require the Company, among other things, to file future prospectuses in respect of the distribution of all or a portion of the common shares held by Encana or its transferee. The Governance Agreement and the Liquidity Agreement terminated, in accordance with their terms, on completion of a secondary public offering by Encana on September 26, 2014, as described below.

Secondary Offering

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

DIVIDENDS

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 year ended December 31, 2015, PrairieSky paid dividends of $1.29743 (May 27, 2014 to December 31, 2014 - $0.63480) per common share. Of the total dividends paid, $167.2 million (May 27, 2014 to December 31, 2014 - $82.5 million) was settled in cash and an additional $30.3 million (May 27, 2014 to December 31, 2014 - nil) was settled in common shares in lieu of cash dividends under the DRIP and SDP. On December 17, 2015, the Board declared a dividend of $0.10833 per common share payable on January 15, 2016 to common shareholders of record as of December 31, 2015.

EARNINGS PER COMMON SHARE

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

	Year Ended December 31, 2015	**For the period May 27, 2014 to December 31, 2014 (1)**
Net earnings	**$ 63.0**	$ 136.3
Number of common shares:		
Weighted average common shares outstanding - Basic	**155.7**	77.9
Effect of dilutive securities	**0.3**	0.1
Weighted average common shares outstanding - Diluted	**156.0**	78.0
Net earnings per common share		
Basic	**$ 0.40**	$ 1.75
Diluted	**$ 0.40**	$ 1.75

(1) Basic and diluted weighted average common shares are based on using the number of common share outstanding from January 1, 2014 to December 31, 2014.

15. SHARE-BASED COMPENSATION PLANS

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

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

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

The following weighted average assumptions were used to determine the fair value of stock options and share-based units granted by the Company:

	Year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Risk free interest rate	**0.77%**	1.53%
Dividend yield	**4.34%**	4.53%
Expected volatility rate	**27%**	25%
Forfeiture rate	**6.4%**	6.4%
Expected life	**5 yrs**	5 yrs
Weighted average grant price	**$30.10**	$29.01
Fair value per option on grant date	**$4.06**	$3.96
Market share price used in liability settlement fair value calculations	**$21.92**	$30.60

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

	Year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Compensation costs of transactions classified as equity-settled	**$ 1.3**	$ 0.6
Compensation costs of transactions classified as cash-settled	**3.4**	2.1
Total share-based compensation expense	**$ 4.7**	$ 2.7

As at December 31, 2015, the liability for share-based payment transactions totaled $4.5 million.

	As at December 31, 2015	As at December 31, 2014
Liability for unvested cash-settled plans	**$ 2.8**	$ 1.4
Liability for vested cash-settled plans	**1.7**	0.7
Liability for cash-settled plans	**$ 4.5**	$ 2.1

The following outlines certain information related to the Company's compensation plans as at December 31, 2015:

A) STOCK OPTIONS

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

The following table summarizes the change in stock options outstanding:

Number of Stock Options (thousands)	**Number**	**Weighted average exercise price ($)**
Issued and Outstanding, May 27, 2014	**-**	**-**
Granted	**529.0**	**29.04**
Forfeited	**(17.5)**	**28.00**
Issued and Outstanding, December 31, 2014	**511.5**	**29.01**
Granted	**354.7**	**30.10**
Exercised	**(54.9)**	**28.00**
Forfeited	**(18.0)**	**28.93**
Issued and Outstanding, December 31, 2015	**793.3**	**29.57**

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

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

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

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

For the year ended December 31, 2015, administrative expense includes $1.3 million (May 27, 2014 to December 31, 2014 - $0.6 million) of compensation costs related to stock options.

B) PERFORMANCE SHARE UNITS

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

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

The following table summarizes information related to the PSUs:

Outstanding PSUs (thousands of units)	**December 31, 2015**	**December 31, 2014**
Outstanding, Beginning of Year	**67.8**	-
Granted	**84.5**	66.4
Deemed eligible to vest	**(16.5)**	-
Units, in lieu of dividends	**5.0**	1.4
Issued and Outstanding, End of Year	**140.8**	67.8

For the year ended December 31, 2015, the Company recorded compensation costs of $1.3 million (May 27, 2014 to December 31, 2014 - $0.7 million expense) related to outstanding PSUs. The remaining weighted average life is 1.9 years.

C) RESTRICTED SHARE UNITS

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

The following table summarizes information related to the RSUs:

Outstanding RSUs (thousands of units)	**December 31, 2015**	**December 31, 2014**
Issued and Outstanding, Beginning of Year	**112.3**	-
Granted	**130.2**	124.3
Deemed eligible to vest	**(9.1)**	-
Units, in lieu of dividends	**7.9**	2.4
Forfeited	**(35.1)**	(14.4)
Issued and Outstanding, End of Year	**206.2**	112.3

For the year ended December 31, 2015, the Company recorded compensation costs of $1.8 million (May 27, 2014 to December 31, 2014 - $0.7 million), respectively, related to outstanding RSUs. The remaining weighted average life is 1.6 years.

D) DEFERRED SHARE UNITS

Directors receive an annual compensation amount in DSUs and have the option to receive Board and Committee retainers and fees in the form of DSUs, which vest immediately. These DSUs are equivalent to a common shares plus accrued dividends over the period from date of grant and vesting to the date of redemption and are settled in cash. DSUs can only be redeemed following departure from the Company and must be redeemed prior to December 15th of the year following the departure. For the year ended December 31, 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)	**December 31, 2015**	**December 31, 2014**
Issued and Outstanding, Beginning of Year	**22.8**	-
Granted	**18.8**	22.3
Redeemed	**(9.8)**	-
Units, in lieu of dividends	**1.2**	0.5
Issued and Outstanding, End of Year	**33.0**	22.8

For the year ended December 31, 2015, the Company recorded compensation costs of $0.3 million (May 27, 2014 to December 31, 2014 - expense of $0.7 million) related to outstanding DSUs.

16. 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 17), 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 December 31, 2015	**As at December 31, 2014**
Shareholders' equity	**$ 2,710.2**	$ 964.0
Working capital	**210.3**	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.

17. 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 11 for the fair value of the royalty note receivable.

B) RISKS ASSOCIATED WITH FINANCIAL ASSETS AND LIABILITIES

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

Commodity Price Risk

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

Interest Rate Risk

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

As at December 31, 2015, the Company had no interest bearing liabilities. The Company's royalty note receivable (Note 11) earns interest at a fixed rate. The cash balance on deposit at December 31, 2015 earns interest at variable rates.

Credit Risk

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

As at December 31, 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 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 $14.2 million and dividend payable of $24.7 million is less than one year.

The Company has in place a $75 million extendible revolving credit facility (the "Revolving Facility"), with a permitted increase to $125 million, and 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 December 31, 2015, the Credit Facility is undrawn.

18. SUPPLEMENTARY INFORMATION

NET CHANGE IN NON-CASH WORKING CAPITAL

	Year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Source (use) of cash:		
Accounts receivable and accrued revenue	**$ 41.1**	$ (9.7)
Prepaid assets	**(0.2)**	(0.3)
Income taxes receivable	**(21.4)**	-
Accounts payable and accrued liabilities	**(8.0)**	15.7
Income taxes payable	**(20.3)**	20.3
Changes in non-cash working capital	**$ (8.8)**	$ 26.0
Related to operating activities	**(9.7)**	26.0
Related to investing activities	**0.6**	-
Related to financing activities	**0.3**	-
Changes in non-cash working capital	**$ (8.8)**	$ 26.0

SUPPLEMENTARY CASH FLOW INFORMATION

	Year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Interest Paid	**$ 0.3**	$ 0.2
Interest Received	**1.7**	0.7
Income Taxes Paid	**34.4**	-

19. COMMITMENTS

The following table outlines the Company's commitments as at December 31, 2015:

($ millions)	Expected Future Payments						
(undiscounted)	**2016**	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Office lease commitments [1]	**$ 1.7**	**$ 1.4**	**$ 1.4**	**$ 1.3**	**$ 1.4**	**$ 4.4**	**$11.6**

(1) The year ended December 31, 2015, includes $1.8 million in office lease expense (May 27, 2014 – December 31, 2014 - $0.5 million)

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 $1.1 million and $2.8 million, respectively.

20. RELATED PARTY TRANSACTIONS

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.

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

	Year ended December 31, 2015	For the period May 27, 2014 to December 31, 2014
Salaries, bonuses, and other benefits	**$ 3.3**	$ 1.7
Termination benefits	**1.3**	-
Stock options	**1.2**	0.6
RSUs, PSUs, and DSUs	**1.3**	1.6
Total Compensation	**$ 7.1**	$ 3.9

Transactions with Encana

Prior to closing the secondary public offering on September 26, 2014 (Note 14), certain directors of the Company were also directors and officers of Encana. As a result, they were considered key management personnel and compensation expense related to these directors of the Company were included above.

Following the closing of the secondary public offering on September 26, 2014 (Note 14), PrairieSky and Encana are no longer related parties.

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

	For the period May 27, 2014 to September 30, 2014
Royalties and lease rental revenue	**$ 14.3**
Office lease rental expense	**(0.3)**
	$ 14.0

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

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
Michelle L. Radomski, Vice-President, Land

AUDITORS

KPMG LLP

BANKERS

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

TORONTO STOCK EXCHANGE TRADING SYMBOL

PSK

INDEPENDENT RESERVE EVALUATORS

GLJ Petroleum Consultants Ltd.
Sproule Associates Limited

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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