

Financial:

Arsenal's Q1 2016 financial and operational results were severely impacted by lower commodity prices and lower production. Commodity prices declined 28% from Q4 2015 and 28% from Q1 2015 to \$27.21 per boe. Q1 2016 average production of 3,058 boe/d was down 8% from Q4 2015 and 25% from Q1 2015 due to production declines, lack of development and tie-in activities, property sales and uneconomic wells being shut in. Due primarily due to low operating margins, the Company recorded a loss in Q1 2016 of \$5.8 million (\$0.30 per share basic and diluted) versus a loss in Q1 2015 of \$466,316 (\$0.03 per share basic and diluted).

SUMMARY OF FINANCIAL RESULTS

(000'S Cdn. \$ except per share amounts)	Three Months Ended March 31	
	2016	2015
Oil and gas revenue	7,570	13,866
Funds (used in) from operations	(263)	15,760
Per share - basic	(0.01)	0.88
Per share - diluted	(0.01)	0.87
Net income (loss)	(5,779)	(466)
Per share - basic	(0.30)	(0.03)
Per share - diluted	(0.30)	(0.03)
Total debt	53,169	57,229
Capital expenditures	896	6,671
Property dispositions	(1,060)	-
Net wells drilled		
Oil	-	0.89
Common share trading range		
High	1.44	6.84
Low	0.87	3.05
Close	1.25	3.30
Average daily volume	17,402	26,758
Shares outstanding - end of period	19,423	17,897

Lower operating margins reduced oil and natural gas revenues for the current quarter 45% to \$7.6 million from \$13.9 million in the first quarter of 2015. Cash used in operations for Q1 2016 totaled (\$262,583) or (\$0.01) per share, a decrease from \$15.8 million in Q1 2015. Q1 2015 included a realized crude hedging gain of \$13.2 million or \$35.91 per boe.

Net debt at Q1 quarter end 2016 was \$53.2 million compared to \$57.2 million at Q1 quarter end in 2015.

Full financial and operational details are contained in the financial statements and MD&A filed on SEDAR and on the Company's website.

Operations:

SUMMARY OF OPERATIONAL RESULTS

(000'S Cdn. \$ except per share amounts)	Three Months Ended March 31	
	2016	2015
Daily production		
Heavy oil (bbl/d)	4	40
Medium oil and NGL's (bbl/d)	1,495	1,698
Light oil and NGLs (bbl/d)	965	1,392
Natural gas (mcf/d)	3,559	5,648
Oil equivalent (boe/d @ 6:1)	3,058	4,071
Realized commodity prices (\$Cdn.)		
Heavy oil (bbl)	40.10	42.20
Medium oil and NGL's (bbl)	29.46	41.16
Light oil and NGLs (bbl)	34.31	49.31
Natural gas (mcf)	1.65	2.46

Oil equivalent (boe @ 6:1)	27.21		37.85	
Netback (\$ per boe)				
Revenue	27.21		37.85	
Royalty	(5.99)	(9.74)
Operating and transportation	(15.93)	(16.37)
Operating netback per boe	5.29		11.74	
General and administrative	(4.27)	(3.01)
Interest and other financing	(2.20)	0.00	
Realized gain (loss) on risk management contracts	0.26)	35.84	
Other (FX and current tax)	0.49		(1.46)
Fund from operations per Boe	(0.94)	43.10	

Compared to Q1 2015, the average price received for oil and gas sales decreased from \$37.85 per boe to \$27.21 per boe. Royalties decreased from 26% to 22% and operating costs, compared to Q1 2015, decreased to \$15.93 per boe from \$16.37 per boe. The resulting Q1 2016 operating netback or margin was \$5.29 per boe versus \$11.74 per boe in Q1 2015.

Average production of 3,058 boe/d during the first quarter of 2016 declined when compared to 4,071 in the first quarter of 2015. Arsenal's Q1 2016 production mix was 44% light oil, 37% medium and heavy oil, and 19% natural gas.

The Company spent \$895,780 on capital in Q1 2016, a decrease from \$6.7 million spent in Q1 2015. The Company did not participate in the drilling of any wells in Q1 2016. Spending was targeted on facility work at Princess, Alberta and on non-operated wells in North Dakota. The Company sold its non-core Desan, BC property for proceeds of \$1.1 million and transferred to the buyer \$2.9 million of decommissioning liabilities related to the property.

Arsenal has reduced and deferred its 2016 capital budget to lower debt and to take advantage of what is anticipated to be higher commodity prices later in 2016. At Princess, Alberta, the tie-in of three wells drilled in Q4 2015 was postponed. One of the three wells is now being tied in, with the remaining wells scheduled for tie-in during Q3 2016. The production capability of the three wells is estimated at approximately 600 boe/d with total tie in costs estimated at approximately \$1.0 million.

During the first quarter at Lindahl, in North Dakota, clean out operations were completed on 5 out of the 6 Evelyn pad wells drilled in Q1 2015. All five wells are in various stages of production ramp up. In addition, the completion of the drill outs allowed two offset producers that were shut in to come back online. Current production from Lindahl is net approximately 300 boe/d higher than Q1. Additional volumes should come online over the next couple of weeks as the ramp up continues and the last of the six wells is drilled out.

Outlook

Oil prices have staged a modest recovery over the past 2 months. Operating netbacks or margins that averaged \$5.29 per boe in Q1 2016 are estimated at approximately \$13.00 per boe for Q2 2016. At these prices, Arsenal's Princess development delivers acceptable rates of return. In order to provide an acceptable return, Bakken drilling will require lower drilling costs or WTI prices to recover to the low US \$60.00 level.

As previously announced, Arsenal has engaged a US based property broker to market all of the Company's US assets. That process is ongoing. There is strong interest in the properties but in the current environment of distressed asset sales and the ongoing volatility for oil prices, negotiations are proceeding more slowly than anticipated. Arsenal's borrowing facility is set to expire on May 25th. At that time, the \$14 million non conforming portion of Arsenal's facility comes due, and since it is anticipated that Arsenal will not have the cash at that time to satisfy the payment, Arsenal is working with its lenders on an amending agreement to allow the completion of the US sale process.

Full financial and operational details are contained in the financial statements and MD&A filed on SEDAR and on the Company's website.

Information

To receive company news releases via e-mail, please advise ir@arsenalenergy.com and specify "Arsenal Press Releases" in the subject line.

Forward Looking Statements

This release contains forward-looking statements and forward-looking information within the meaning of applicable Canadian securities laws. These statements relate to future events or the Company's future performance and are based upon the

Company's internal assumptions and expectations. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "should", "believe", "intends", "forecast", "plans", "guidance", "budget" and similar expressions.

More particularly and without limitation, this release contains forward-looking statements and information relating to petroleum and natural gas production estimates and weighting, projected crude oil and natural gas prices, future exchange rates, expectations as to royalty rates, expectations as to transportation and operating costs, expectations as to general and administrative costs and interest expense, expectations as to capital expenditures and net debt, planned capital spending, future liquidity and Arsenal's ability to fund ongoing capital requirements through operating cash flows and its credit facilities, supply and demand fundamentals for oil and gas commodities, timing and success of development and exploitation activities, cash availability for the financing of capital expenditures, access to third-party infrastructure, treatment under governmental regulatory regimes and tax laws and future environmental regulations.

The forward-looking statements and information contained in this release are based on certain key expectations and assumptions made by Arsenal. The following are certain material assumptions on which the forward-looking statements and information contained in this release are based: the stability of the global and national economic environment, the stability of and commercial acceptability of tax, royalty and regulatory regimes applicable to Arsenal, exploitation and development activities being consistent with management's expectations, production levels of Arsenal being consistent with management's expectations, the absence of significant project delays, the stability of oil and gas prices, the absence of significant fluctuations in foreign exchange rates and interest rates, the stability of costs of oil and gas development and production in Western Canada, including operating costs, the timing and size of development plans and capital expenditures, availability of third party infrastructure for transportation, processing or marketing of oil and natural gas volumes, prices and availability of oilfield services and equipment being consistent with management's expectations, the availability of, and competition for, among other things, pipeline capacity, skilled personnel and drilling and related services and equipment, results of development and exploitation activities that are consistent with management's expectations, weather affecting Arsenal's ability to develop and produce as expected, contracted parties providing goods and services on the agreed timeframes, Arsenal's ability to manage environmental risks and hazards and the cost of complying with environmental regulations, the accuracy of operating cost estimates, the accurate estimation of oil and gas reserves, future exploitation, development and production results and Arsenal's ability to market oil and natural gas successfully to current and new customers. Additionally, estimates as to expected average annual production rates assume that no unexpected outages occur in the infrastructure that the Company relies on to produce its wells, that existing wells continue to meet production expectations and any future wells scheduled to come on in the coming year meet timing and production expectations.

Commodity prices used in the determination of forecast revenues are based upon general economic conditions, commodity supply and demand forecasts and publicly available price forecasts. The Company continually monitors its forecast assumptions to ensure the stakeholders are informed of material variances from previously communicated expectations.

Financial outlook information contained in this release about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this release should not be used for purposes other than for which it is disclosed.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent known and unknown risks and uncertainties. Arsenal's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Arsenal will derive therefrom. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition from others for scarce resources, the ability to access sufficient capital from internal and external sources, changes in governmental regulation of the oil and gas industry and changes in tax, royalty and environmental legislation. Additional information on these and other factors that could affect the Company's operations or financial results are included in the Company's most recent Annual Information Form and other reports on file with the applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

Readers are cautioned that the foregoing list of factors is not exhaustive. Furthermore, the forward-looking statements contained in this release are made as of the date of this release for the purpose of providing the readers with the Company's expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. Arsenal undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws. The forward-looking statements contained in this release are expressly qualified in their entirety by this cautionary statement.

Basis of Presentation. For the purpose of reporting production information, reserves and calculating unit prices and costs,

natural gas volumes have been converted to a barrel of oil equivalent (boe) using six thousand cubic feet equal to one barrel. A boe conversion ratio of 6:1 is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. This conversion conforms with the Canadian Securities Administrators' National Instrument 51-101 when boes are disclosed. Boes may be misleading, particularly if used in isolation.

Non-IFRS Measures. This release contains the terms "funds from operations", and "net debt" which are not recognized measures under IFRS. The Company uses these measures to help evaluate its performance. Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is a non-IFRS measure and has been defined by the Company as cash flow from operating activities before, exploration and evaluation expenses, decommissioning expenditures and changes in non-cash working capital from operating activities. The Company may also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Arsenal's determination of funds from operations may not be comparable to that reported by other companies nor should it be viewed as an alternative to cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. Net debt includes borrowings under the Company's credit facility plus or minus the Company's working capital. Net debt excludes long term decommissioning obligations and risk management contracts (whether an asset or an obligation and whether classified as short or long term). Net debt is used by management to monitor remaining availability under its credit facilities.

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