

Arsenal Energy Inc. Releases Q2 Results and Mailing of Proxy Materials for Its Special Meeting

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CALGARY, Aug 9, 2016 - [Arsenal Energy Inc.](#) ("Arsenal" or the "Company") (TSX:AEI) (OTCQX:AEYIF) is pleased to release its 2016 Q2 financial and operational results. During the second quarter Arsenal eliminated its bank debt with the closure of the sale of its US operations and its Princess West and Chauvin properties. A business combination with Lone Pine Resources has been negotiated and recommended to shareholders (the "Arrangement").

In connection with the Arrangement, Arsenal is also pleased to announce that it has filed its meeting materials in connection with the upcoming special meeting of securityholders (the "Meeting") to be convened on September 8, 2016 at 2:30 p.m. (Calgary time) at the Calgary Petroleum Club, to consider and vote upon the Arrangement and related matters, under its profile at [www.sedar.com](#). Arsenal has also commenced mailing the meeting materials to its securityholders, including the joint management information circular dated August 5, 2016 ("Circular") and the forms of proxy in relation to the Meeting, along with a letter of transmittal for use by registered shareholders of Arsenal. The letter of transmittal must be duly completed by registered Arsenal shareholders and returned to Alliance Trust Company, the depository for the Arrangement, in order for such shareholders to receive the consideration to which they are entitled under the Arrangement. Non-registered shareholders of Arsenal should carefully follow the instructions from the broker, investment dealer, bank, trust company, custodian, nominee or other intermediary that holds Arsenal shares on their behalf. The Arrangement is more particularly described in Arsenal's press releases of June 24, 2016 and August 3, 2016.

The board of Arsenal has, based upon, among other things, the fairness opinion from National Bank Financial Inc., reconfirmed its unanimous approval of the Arrangement and its recommendation that Arsenal securityholders vote in favour of the Arrangement at the Meeting.

Arsenal securityholders are encouraged to vote as soon as possible following the procedures described in the form of proxy and the Circular prepared in respect of the Meeting.

Financial:

As a result of the sale of all of the Company's US properties which were clearly distinguishable from an operational and financial perspective and represented a separate and distinctive cash-generating unit, the financial statements and the operational and financial data and information for the three and six months ended June 30, 2016 have been prepared and presented on the basis that the sale represented the sale of a separate and distinct line of business and has been accounted for as discontinued operations. Certain financial and operational information presented hereafter therefore has been adjusted to represent this accounting treatment and includes results for current and comparative periods from the Company's Canadian operations only, adjusted for the sales of Canadian properties from the closing dates onwards.

SUMMARY OF FINANCIAL RESULTS

(000'S Cdn. \$ except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
FINANCIAL				
Oil and gas revenue from continuing operations	5,698	9,572	10,140	17,015
Cash provided by operating activities	2,625	2,405	2,398	19,514
Funds from continuing operations ¹	25	2,292	(1,426)	14,539
Per share - basic ²	-	0.13	(0.07)	0.81
Per share - diluted ²	-	0.13	(0.07)	0.79
Cash and stock dividends paid	-	358	-	894
Net loss from continuing operations	(1,823)	(4,261)	(7,664)	(5,202)

Per share - basic ²	(0.09)	(0.24)	(0.39)	(0.29)
Per share - diluted ²	(0.09)	(0.24)	(0.39)	(0.29)
Net debt ³	4,195	56,635	4,195	56,635
Capital expenditures	523	1,382	747	5,152
Property dispositions	(11,799)	(1,677)	(12,859)	(1,677)
Common Share Trading Range				
High	1.60	5.60	1.60	6.72
Low	1.05	3.00	0.87	3.00
Close	1.36	3.13	1.36	3.13
Average daily volume	16,381	15,189	16,883	17,177
Shares outstanding - end of period	19,423	17,969	19,423	17,969

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

Funds from continuing operations for Q2 2016 was nil versus \$2.3 million or \$0.13 per share for Q2 2015. Excluding onetime credit restructuring charges of \$0.72 million, cash flow would have been \$0.04 per share for the quarter. The company experienced a net loss of \$1.8 million from continuing operations during the second quarter.

As a result of the property sales, bank debt was totally eliminated during the quarter. Total net debt including working capital was reduced to \$4.2 million at quarter end versus \$56.6 million at quarter end 2015 and \$84.4 million at Q2 quarter end in 2014.

Operations:

SUMMARY OF OPERATIONAL RESULTS

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Daily production				
Heavy oil (bbl/d)	6	18	5	29
Medium oil and NGL's (bbl/d)	1,375	1,636	1,435	1,667
Natural gas (mcf/d)	1,590	4,963	2,306	4,991
Oil equivalent (boe/d @ 6:1)	1,646	2,481	1,824	2,527
Realized commodity prices (\$Cdn.)				
Heavy oil (bbl)	27.29	45.32	32.54	43.17
Medium oil and NGL's (bbl)	43.99	57.37	36.42	49.16
Natural gas (mcf)	1.23	2.12	1.42	2.17
Oil equivalent (boe @ 6:1)	38.04	42.40	30.54	37.20
Netback (\$ per boe)				
Revenue	38.04	42.40	30.54	37.20
Royalty	(5.58)	) (5.33)	) (4.98)	) (6.56)
Operating and transportation	(18.77)	) (18.62)	) (18.52)	) (19.74)
Operating netback per boe	13.70	18.45	7.03	10.89
General and administrative	(6.89)	) (5.08)	) (6.69)	) (4.91)
Cash portion of share based compensation	-	) (0.56)	) -	) (0.27)
Interest and other financing	(8.28)	) (2.32)	) (5.58)	) (2.32)
Realized gain (loss) on risk management contracts	(3.94)	) (0.28)	) (1.99)	) 28.38
Other (FX and current tax)	5.57	) (0.06)	) 2.93	) 0.02
Fund from operations per Boe	0.16	10.17	(4.30)	) 31.79

Due to property sales, average production of 1646 boe/d during the second quarter was 34% lower when compared to the second quarter of 2015. Arsenal's Q2 2015 production mix was 84% oil and 16% natural gas. Arsenal did not participate in any drilling or completions in the second quarter.

Outlook

On June 24, 2016, the Company and Lone Pine Resources Canada Ltd. ("Lone Pine"), a privately-held oil and gas exploration and production company based in Calgary, Alberta, announced that they have entered into a definitive agreement to effect a business combination by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Completion of the Arrangement will result in the shareholders of the Company and Lone Pine receiving common shares of a new corporation, named [Prairie Provident Resources Inc.](#) ("Newco") in substitution for their existing shares, with Newco in turn indirectly holding the combined undertakings of the Company and Lone Pine. Upon completion of the Arrangement, which is expected to occur in September 2016, former Lone Pine securityholders will hold 77% of the Newco shares and former Arsenal securityholders will hold 23% of the Newco shares. The precise ratio per share at which Newco shares are issued in substitution for Lone Pine shares and Arsenal shares will be based on these proportionate interests of 77% and 23%, respectively, and has been confirmed in the joint information circular issued by Lone Pine and Arsenal.

Implementation of the Arrangement will be subject to the approval of Arsenal shareholders and Lone Pine shareholders, respectively, at special meetings of both companies to be held in September 2016, by majorities of not less than two-thirds of the votes cast by Arsenal shareholders at the Arsenal meeting, and not less than two-thirds of the votes cast at the Lone Pine meeting by the common shareholders and the preferred shareholders of Lone Pine, in each case voting as a class.

Details of the planned business combination are detailed in the Circular, available for viewing under the Company's profile on SEDAR (at www.sedar.com) and on the company's website.

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.

Contact

Tony van Winkoop, President and Chief Executive Officer
(403) 262-4854
(403) 265-6877

J. Paul Lawrence, Vice President, Finance and CFO
(403) 262-4854
(403) 265-6877

[Arsenal Energy Inc.](#)
1900, 639 - 5th Avenue S.W.,
Calgary, Alberta, T2P 0M9
ir@arsenalenergy.com
www.arsenalenergy.com

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