

## **PRAIRIESKY ROYALTY ANNOUNCES 2015 FOURTH QUARTER AND YEAR END RESULTS, ADJUSTS DIVIDEND AND SUSPENDS DIVIDEND REINVESTMENT PLANS**

(All figures are in Canadian dollars)

**CALGARY, ALBERTA** (February 29, 2016) - PrairieSky Royalty Ltd. ("**PrairieSky**" or the "**Company**") (TSX:PSK) is pleased to announce its operating and financial results for the fourth quarter of 2015 and the year ended December 31, 2015. In addition, PrairieSky announces that it will set its annual dividend at \$0.72 per share per annum and suspend its Dividend Reinvestment Plan and Stock Dividend Program, in each case effective for the March 2016 dividend payable on April 15, 2016.

### **HIGHLIGHTS:**

- Acquired assets from Canadian Natural Resources Limited on December 16, 2015, adding 5.4 million acres of royalty lands, including the largest fee title land position in Saskatchewan.
- Maintained a strong balance sheet with \$210.3 million of positive working capital and nil debt as of December 31, 2015.
- Reduced cash administrative expenses across the business, from \$4.34 per boe for Q4 2014 to \$3.94 per boe for Q4 2015.
- Actively leased land for new and existing plays, earning \$33.3 million in lease issuance bonus consideration during the year ended December 31, 2015.
- Reported average fourth quarter production of 17,651 boe/d, with average production of 17,225 boe/d for the year ended December 31, 2015.
- Recorded fourth quarter Funds from Operations of \$60.0 million, and \$177.8 million for the year ended December 31, 2015, resulting in a 2015 payout ratio of 99% after the DRIP & SDP.
- Recorded fourth quarter revenues of \$44.8 million (Q4 2014 - \$69.6 million) including \$38.3 million of Product Revenue (Q4 2014 - \$62.4 million) with an Operating Cash Flow Netback of \$18.29 per boe (Q4 2014 - \$33.69 million).

### **PRESIDENT'S MESSAGE**

The past year has been challenging for industry given the severe decline in commodity prices, limited access to capital for third party operators and a corresponding reduction in activity levels across Western Canada. Throughout 2015 and early 2016, there has been continued pressure on Western Canadian drilling activity with the WCSB rig count down approximately 40% since the beginning of 2015. We estimate that, consistent with the WCSB generally, drilling activity on our land base decreased significantly with activity down approximately 69% in the fourth quarter of 2015 versus the fourth quarter of 2014 and down approximately 63% year over year. For the full year 2015, we estimate that approximately \$368 million of third party capital was spent drilling and completing new wells on PrairieSky's lands (\$165 million attributable to the Range Royalty lands acquired in December 2014), representing a decrease of approximately 54% over estimated 2014 capital spending.

PrairieSky has remained disciplined with its balance sheet and focused on its strategy of delivering strong, risk adjusted returns to its shareholders through the leasing of undeveloped land, accretive acquisitions and managing controllable costs in our business. During 2015 we actively marketed our fee title lands and saw significant leasing interest and increased drilling commitments on the acreage, with \$33.3 million in lease issuance bonus consideration in 2015 (2014 - \$8.7 million). During 2015, several new exploration discoveries were made on our land base, including 3 new oil discoveries which we expect will see incremental development capital spent in the near term.

In late December 2015, PrairieSky completed the acquisition of royalty assets from Canadian Natural Resources Limited in a fully funded cash and stock transaction, which established PrairieSky as the largest independent oil and natural gas royalty enterprise in Canada and positions us for long term growth. This acquisition added approximately 5.4 million acres of royalty lands (an increase of 58%) including 2.2 million acres of fee simple mineral title lands (an increase of 40%) and 3.2 million acres of gross overriding royalty lands (an increase of 84%) and associated production in Western Canada's most economic resource plays, while significantly diversifying the geographical nature of our asset base and adding top quality royalty payors. In conjunction with the transaction, Canadian Natural, a best in class allocator of capital and pioneer in the development of heavy oil, has made a multi-year drilling commitment on the acquired lands. We estimate that approximately \$555 million of third party capital was spent drilling and completing new wells on the Canadian Natural lands in 2015. In addition to the Canadian Natural acquisition, PrairieSky completed an additional \$55.9 million of complementary acquisitions during 2015 using cash on hand, adding over 200,000 acres of fee title lands and approximately 218,000 acres of gross overriding royalty interests to its portfolio. We continue to see quality acquisition opportunities including small and medium sized potential transactions, and will remain disciplined in our capital allocation decisions.

PrairieSky remains committed to cost control within our business and has made significant efforts to reduce controllable costs over the past year. During the quarter, we recorded cash administrative expenses of \$3.94 per boe which is down 9.2% from the fourth quarter of 2014. The reduction in administrative expenses was achieved while still investing in new systems development to improve efficiencies over the longer term. While we expect to incur some one-time costs integrating the Canadian Natural assets, we expect our administrative expenses to stay flat year over year notwithstanding we have tripled PrairieSky's land base since our IPO in May 2014. In an effort to lead by example and with a focus on shareholder returns, Executive Management of the Corporation have pro-actively implemented a reduction to 2016 total compensation of approximately 10%, on average.

Our low cost structure and high margin royalty production continues to deliver strong funds flow with no capital requirements. The Board of Directors has determined that, effective for the March 2016 dividend (payable on April 15, 2016), PrairieSky's annual dividend will be set at \$0.72 per share (\$0.06 per share, per month) and the Dividend Reinvestment Plan and Stock Dividend Program (DRIP/SDP) will be suspended. Based on our twelve month budget, the dividend will be paid out of internally generated free cash flow (assuming current strip pricing) while continuing to add cash on the balance sheet without the dilution of the DRIP/SDP.

We are fortunate to have a dedicated group of employees and an experienced board of directors who remain focused on ensuring PrairieSky's strength during this downturn and positioning us to provide strong shareholder returns for years to come.

#### **DIVIDEND ADJUSTED TO \$0.72 PER SHARE; DRIP/SDP SUSPENDED**

As a result of continued volatility and pressure on current and forward strip crude oil and natural gas prices, and consistent with our focus on balance sheet strength and ensuring our dividend is fully funded through internally generated funds flow, PrairieSky will adjust its current dividend level of \$1.30 per share per annum to \$0.72 per share per annum, effective for the March 31, 2016 record date. In addition, PrairieSky will suspend the Corporation's Dividend Reinvestment Plan and Stock Dividend Program. The Board of Directors considers a number of factors in determining the dividend level, including current and projected activity levels on PrairieSky's royalty lands, the current commodity price environment and the working capital balance and earnings of the Company. The next regularly scheduled dividend review will be in February 2017.

#### **FOURTH QUARTER HIGHLIGHTS:**

- Acquired assets from Canadian Natural on December 16, 2015, adding 5.4 million acres of royalty lands including 2.2 million acres of fee simple mineral title lands and 3.2 million acres of gross

overriding royalty lands and associated production in Western Canada's most economic resource plays.

- Quarterly production of 17,651 boe/d (31% crude oil, 10% NGL and 59% natural gas).
- Funds from Operations of \$60.0 million or \$0.36 per share (basic and diluted).
- Declared dividends of \$58.6 million or \$0.3250 per share.
- Collected compliance revenue of \$1.8 million.
- As at December 31, 2015 working capital was \$210.3 million, including cash and cash equivalents of \$190.8 million, and nil debt.

#### **FULL YEAR 2015 HIGHLIGHTS**

- Recorded production volumes of 17,225 boe/d (32% crude oil, 9% NGL and 59% natural gas).
- Funds from Operations of \$177.8 million or \$1.14 per share (basic and diluted).
- Declared dividends of \$206.5 million or \$1.30 per share.
- Collected compliance revenue of \$9.3 million.
- Received \$33.3 million in lease issuance bonus consideration from new leasing activity.

#### **FINANCIAL AND OPERATIONAL INFORMATION**

The following table summarizes selected operational and financial information of the Corporation for the periods noted. All dollar amounts are stated in Canadian dollars unless otherwise noted.

A full version of PrairieSky's Management's Discussion and Analysis ("**MD&A**") and Audited Financial Statements and Notes for the fiscal period ended December 31, 2015 is available on SEDAR at [www.sedar.com](http://www.sedar.com) and PrairieSky's website at [www.prairiesky.com](http://www.prairiesky.com).

| (\$ Millions, unless otherwise noted)              | Three months ended<br>December 31,<br>2015 | Three months ended<br>December 31,<br>2014 | Year ended<br>December 31,<br>2015 | For the<br>period from<br>May 27, 2014<br>to December<br>31, 2014 <sup>(5)</sup> |
|----------------------------------------------------|--------------------------------------------|--------------------------------------------|------------------------------------|----------------------------------------------------------------------------------|
| <b>FINANCIAL</b>                                   |                                            |                                            |                                    |                                                                                  |
| Revenues                                           | \$ 44.8                                    | \$ 69.6                                    | \$ 215.0                           | \$ 198.9                                                                         |
| <b>Funds from Operations<sup>(1)</sup></b>         | <b>60.0</b>                                | <b>59.0</b>                                | <b>177.8</b>                       | <b>158.9</b>                                                                     |
| Per Share – basic and diluted <sup>(2)</sup>       | 0.36                                       | 0.44                                       | 1.14                               | 2.04                                                                             |
| <b>Net Earnings and Comprehensive Income</b>       | <b>8.0</b>                                 | <b>50.7</b>                                | <b>63.0</b>                        | <b>136.3</b>                                                                     |
| Per Share – basic and diluted <sup>(2)</sup>       | 0.05                                       | 0.38                                       | 0.40                               | 1.75                                                                             |
| Dividends declared <sup>(3)</sup>                  | 58.6                                       | 43.2                                       | 206.5                              | 98.3                                                                             |
| Per Share                                          | 0.3250                                     | 0.3174                                     | 1.30                               | 0.7406                                                                           |
| Acquisitions including non-cash consideration      | 1,463.2                                    | 465.7                                      | 1,525.1                            | 477.2                                                                            |
| Working Capital                                    | 210.3                                      | 71.4                                       | 210.3                              | 71.4                                                                             |
| <b>Shares Outstanding</b>                          | <b>228.2</b>                               | <b>149.3</b>                               | <b>228.2</b>                       | <b>149.3</b>                                                                     |
| Weighted average – basic                           | 168.2                                      | 132.5                                      | 155.7                              | 77.9                                                                             |
| Weighted average – diluted                         | 168.4                                      | 132.6                                      | 156.0                              | 78.0                                                                             |
| <b>OPERATIONAL</b>                                 |                                            |                                            |                                    |                                                                                  |
| <b>Production Volumes</b>                          |                                            |                                            |                                    |                                                                                  |
| Natural Gas (MMcf/d)                               | 62.2                                       | 58.6                                       | 60.9                               | 50.0                                                                             |
| Crude Oil (bbls/d)                                 | 5,432                                      | 6,069                                      | 5,484                              | 6,429                                                                            |
| NGL (bbls/d)                                       | 1,852                                      | 1,444                                      | 1,591                              | 1,487                                                                            |
| Total (BOE/d) <sup>(4)</sup>                       | 17,651                                     | 17,280                                     | 17,225                             | 16,249                                                                           |
| <b>Realized Pricing</b>                            |                                            |                                            |                                    |                                                                                  |
| Natural Gas (\$/Mcf)                               | \$ 2.45                                    | \$ 3.68                                    | \$ 2.67                            | \$ 4.26                                                                          |
| Crude Oil (\$/bbl)                                 | 40.74                                      | 67.41                                      | 47.80                              | 81.90                                                                            |
| NGL (\$/bbl)                                       | 22.65                                      | 36.70                                      | 23.01                              | 55.71                                                                            |
| Total (\$/BOE) <sup>(4)</sup>                      | \$ 23.59                                   | \$ 39.24                                   | \$ 26.80                           | 50.62                                                                            |
| <b>Operating Cash Flow Netback<sup>(1)</sup></b>   | <b>\$ 18.29</b>                            | <b>\$ 33.69</b>                            | <b>\$ 21.14</b>                    | <b>\$ 44.54</b>                                                                  |
| <b>Funds from Operations per BOE<sup>(1)</sup></b> | <b>\$ 36.95</b>                            | <b>\$ 37.11</b>                            | <b>\$ 28.28</b>                    | <b>\$ 44.65</b>                                                                  |
| <b>Natural Gas Price Benchmarks</b>                |                                            |                                            |                                    |                                                                                  |
| AECO (\$/Mcf)                                      | \$ 2.65                                    | \$ 4.01                                    | \$ 2.75                            | \$ 4.30                                                                          |
| <b>Oil Price Benchmarks</b>                        |                                            |                                            |                                    |                                                                                  |
| West Texas Intermediate (WTI) (US\$/bbl)           | \$ 41.71                                   | \$ 73.39                                   | \$ 48.61                           | \$ 89.84                                                                         |
| Edmonton Light Sweet (\$/bbl)                      | \$ 52.16                                   | \$ 75.23                                   | \$ 56.97                           | \$ 92.63                                                                         |

(1) A Non-GAAP measure which is defined under the Non-GAAP Measures section in PrairieSky's MD&A.

(2) Net Earnings and Comprehensive Income and Funds from Operations per common share are calculated using the weighted average number of common shares outstanding.

(3) A dividend of \$0.10833 per common share was declared on December 17, 2015. The dividend was paid on January 15, 2016 to shareholders of record as at December 31, 2015.

(4) See "Conversions of Natural Gas to BOE".

(5) The Company was incorporated on November 27, 2013 and commenced operations on May 27, 2014. Basic and diluted weighted average common shares are based on the three and twelve month periods ended December 31, 2014.

## 2015 RESERVES INFORMATION

PrairieSky's year end 2015 reserves were evaluated by independent reserves evaluators GLJ Petroleum Consultants Ltd. ("GLJ") and Sproule Associates Limited ("Sproule") (with respect to the assets acquired from Canadian Natural). The evaluation of the Royalty Properties was done in accordance with the definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook and National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities*. PrairieSky's reserves information is included in the Company's Annual Information Form which is available on SEDAR at [www.sedar.com](http://www.sedar.com) and PrairieSky's website at [www.prairiesky.com](http://www.prairiesky.com).

## CONFERENCE CALL DETAILS

A conference call to discuss the financial and operational results for the period ended December 31, 2015 will be held for the investment community on Tuesday, March 1, 2016 beginning at 6:30 a.m. MT (8:30 a.m. ET). To participate in the conference call, approximately 10 minutes prior to the conference call, please dial 877-291-4570 (toll-free in North America) or 647-788-4919 (Toronto & International).

## FORWARD-LOOKING STATEMENTS

This press release includes certain statements regarding PrairieSky's future plans and operations and contains forward-looking statements that we believe allow readers to better understand our business and prospects. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "strategy" and similar expressions are intended to identify forward-looking information or statements. Forward-looking statements contained in this press release include our expectations with respect to PrairieSky's business and growth strategy, additional land leasing activities, integration costs associated with the Canadian Natural acquisition and go forward administrative expense, the payment of future dividends and the dividend level, estimates regarding and 2015 and 2014 capital spending levels on the PrairieSky, Range Royalty and Canadian Natural lands, and expected follow up capital expenditures on new discoveries on PrairieSky's land base.

In addition, statements relating to "reserves" and the future net revenue associated with such reserves are deemed to be forward-looking statements as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated and can be profitably produced in the future.

With respect to forward-looking statements contained in this press release, we have made several assumptions including those described in detail in our MD&A and Annual Information Form for the period ended December 31, 2015. Readers and investors are cautioned that the assumptions used in the preparation of such forward-looking information and statements, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Our actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them.

By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, lack of pipeline capacity, currency fluctuations, imprecision of reserve estimates, royalties, environmental risks, taxation, regulation, changes in tax or other legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility, and our ability to access sufficient capital from internal and external sources. In addition, PrairieSky is subject to numerous risks and uncertainties in relation to the acquisition of the royalty business from Encana. These risks and uncertainties include risks relating to the potential for disputes to arise with



Encana and Canadian Natural, limited ability to recover indemnification from Encana and Canadian Natural under applicable agreements. The foregoing and other risks are described in more detail in PrairieSky's MD&A and Annual Information Form for the period ended December 31, 2015 under the heading "Risk Management" and "Risk Factors", respectively, each of which is available at [www.sedar.com](http://www.sedar.com).

**Further, any forward-looking statement is made only as of the date of this press release, and PrairieSky undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws. New factors emerge from time to time, and it is not possible for PrairieSky to predict all of these factors or to assess in advance the impact of each such factor on PrairieSky's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.**

**The forward-looking information contained in this document is expressly qualified by this cautionary statement.**

#### **CONVERSIONS OF NATURAL GAS TO BOE**

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). We use the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on either energy content or current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

#### **ABOUT PRAIRIESKY ROYALTY LTD.**

PrairieSky is a royalty-focused company, generating royalty revenues as petroleum and natural gas are produced from its properties. PrairieSky has a diverse portfolio of properties that have a long history of generating free cash flow and that represent the largest and most concentrated independently-owned fee simple mineral title position in Canada. PrairieSky Royalty's common shares trade on the Toronto Stock Exchange under the symbol PSK.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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