



NOT FOR DISTRIBUTION TO U.S. NEWSWIRE SERVICES OR FOR DISSEMINATION IN THE UNITED STATES. ANY FAILURE TO COMPLY WITH THIS RESTRICTION MAY CONSTITUTE A VIOLATION OF UNITED STATES SECURITIES LAW.

PRAIRIESKY ANNOUNCES ROYALTY ACQUISITION AND CONCURRENT BOUGHT DEAL EQUITY FINANCING

Calgary, Alberta (December 14, 2016)

PrairieSky Royalty Ltd. ("PrairieSky" or the "Company") (TSX: PSK) is pleased to announce it has entered into a definitive agreement with Pengrowth Energy Corporation ("Pengrowth") to acquire a 4% Gross Overriding Royalty on current and future phases of its Lindbergh SAGD thermal oil project (the "Lindbergh Royalty Acquisition"), as well as seismic over certain lands in British Columbia and Alberta, for total cash consideration of \$250 million (the "Transaction").

TRANSACTION HIGHLIGHTS

Complementary Asset to PrairieSky's High Quality Royalty Portfolio

- Acquiring a 4% Gross Overriding Royalty on Pengrowth's Lindbergh and Muriel Lake properties, a long-life, SAGD oil project with a low sustaining capital and operating cost structure.
- Phase I of commercial development at Lindbergh represented average daily production of 15,190 barrels per day of crude oil for the three months ended September 30, 2016, implying royalty production net to PrairieSky of over 600 barrels per day of crude oil.
- The acquired royalty includes future phases of development at Lindbergh and Muriel Lake, including Phase II (as defined below) which received regulatory approval in May 2016 and represents an incremental 17,500 barrels per day project and a combined nameplate capacity of 30,000 barrels per day.

Increased Free Cash Flow per Share

- The Transaction provides shareholders with near term cash flow accretion and medium and long term value enhancement.
- The Transaction increases PrairieSky's oil production and liquids weighting adding over 600 barrels per day of crude oil royalty interest production and exposure to future phases of development.
- Upon closing of the Lindbergh Royalty Acquisition, approximately 10% of PrairieSky's total crude oil production is expected to be from thermal oil projects.
- The Transaction provides an additional \$250 million of tax pools, including \$225 million of COGPE and \$25 million of CEE which reduces PrairieSky's future taxability.

Long Life Asset with Growth Potential

- Low decline, long-life asset with potential to double thermal production in the medium term and with a similar duration to PrairieSky's existing portfolio of royalty assets.
- PrairieSky shareholders will benefit from future technological advancements in the industry with no further investment by or cost to PrairieSky.
- Along with the Lindbergh Royalty Acquisition, PrairieSky will also acquire seismic in areas of British Columbia and Alberta where PrairieSky has Fee Mineral Title lands.

Commenting on the Transaction, Andrew Phillips, President and CEO of PrairieSky said, "The Lindbergh Royalty Acquisition provides new and existing PrairieSky shareholders with unique exposure to what we believe is a large resource in place SAGD project with stable production and sizable growth opportunities. Lindbergh is performing well above original nameplate production estimates and design steam oil ratios, generating positive netbacks through 2016 with low associated operating costs and sustaining capital requirements. This is a significant addition to PrairieSky's oil portfolio which provides PrairieSky

shareholders with near-term cash flow accretion, medium and long-term value enhancement, and exposure to future phases as well as the benefits of technological advances by industry at no additional cost to PrairieSky."

The Board of Directors of PrairieSky has unanimously approved the Transaction which is anticipated to close on or about January 6, 2017, with an effective date of January 1, 2017. The Transaction is subject to satisfaction of customary closing conditions.

KEY ATTRIBUTES OF PENGROWTH'S LINDBERGH AND MURIEL LAKE PROPERTIES

Lindbergh is Pengrowth's 100% owned and operated thermal project which is located in the Cold Lake area of Alberta and encompasses 42.5 sections of land. The Lindbergh thermal oil project achieved first steam in December 2014 and first commercial production in April 2015. Lindbergh had average daily production of 15,190 barrels per day for the three months ended September 30, 2016 at an average steam oil ratio of 2.46. Lindbergh provides certain cost advantages including enhanced bitumen quality and flow characteristics resulting in an efficient steam oil ratio which translates into a lower operating cost structure and higher netbacks compared to many other thermal projects. In May 2016, Pengrowth received regulatory approval for the 17,500 barrels per day second commercial phase ("Phase II") of the Lindbergh thermal project. With Phase II, nameplate capacity of the Lindbergh project will be 30,000 barrels per day.

On October 6, 2016, Pengrowth released an update of bitumen reserves and contingent resources for the Lindbergh project as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") as of September 30, 2016 which estimated proved plus probable plus possible reserves for the Lindbergh property of 414.5 million barrels of oil. This represents an increase of 12% from the December 31, 2015 estimate as a result of the approval of the Phase II expansion as well as the addition of reserves associated with ongoing positive production performance.

The reserves described above do not include any potential development related to the Muriel Lake project, northeast of Lindbergh, where development is forecasted by Pengrowth to begin in 2023 with production to commence in 2025.

BOUGHT DEAL FINANCING

Concurrent with the Transaction, PrairieSky has entered into a \$251 million bought deal equity financing (the "Financing") whereby a syndicate of underwriters led by TD Securities Inc. as the sole bookrunner and co-led by CIBC Capital Markets (the "Underwriters") have agreed to purchase 8 million common shares of the Company ("Common Shares") at a price of \$31.40 per share (the "Issue Price"). The Company has granted the Underwriters an option, exercisable at any time until 30 days following the closing of the Financing, to purchase up to an additional 15% of the Common Shares under the Financing to cover over-allotments, if any. If the over-allotment option is exercised in full, the Company will receive aggregate gross proceeds of approximately \$289 million. The Common Shares issued pursuant to the Financing will be eligible to receive the dividend for the month of January 2017 which is expected to be declared on January 13, 2017 and paid on or about February 15, 2017 to shareholders of record on or about January 31, 2017.

PrairieSky will use the net proceeds of the Financing to pay the purchase price for the Transaction and the remainder of the proceeds, if any, to finance future acquisitions. The Financing is subject to certain conditions including customary regulatory and Toronto Stock Exchange ("TSX") approvals. Closing of the Financing is not contingent on closing of the Acquisition. The Common Shares will be offered in all provinces and territories of Canada by way of a short form prospectus and in the United States pursuant to the exemptions from the registration statement requirements under the United States Securities Act of 1933. The closing of the Financing is expected to occur on or about January 6, 2017.

This news release does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to U.S. Persons unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available.

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 the benefits of the Transaction, accretion levels, potential development of and production from future phases at Lindbergh and Muriel Lake and the timing thereof, future operating costs and capital requirements of the Lindbergh and Muriel Lake properties, expected production from Phase II, expected nameplate capacity of the Lindbergh and Muriel Lake properties, the effect of the Transaction on PrairieSky's oil and liquids weighting, the percentage of PrairieSky's total production that will be attributed to thermal projects, the use of the tax pools acquired in the Transaction by PrairieSky, future technological advancements and their effect on production at the Lindbergh and Muriel Lake properties, the operational advantages of the Lindbergh thermal project, reserves attributable to the Lindbergh thermal project, PrairieSky's business and growth strategy and potential business development and acquisition opportunities, and the closing and timing of closing of the Transaction and the Financing and the use of proceeds of the Financing.

The information in this press release could differ materially from those anticipated in the forward-looking statements as a result of the risk factors set forth below: failure to complete the Transaction in all material respects in accordance with the purchase and sale agreement with Pengrowth or at all; the inability to obtain regulatory, TSX, and other required approvals in connection with the Transaction and the Financing, as applicable and within the timeframes contemplated; failure to realize the anticipated benefits of the Transaction; the assets will not be developed by Pengrowth or any successor in interest in the manner anticipated by PrairieSky; Pengrowth's ability to obtain necessary regulatory approvals to continue to develop the Lindbergh and Muriel Lake properties as expected; non-compliance with contractual royalty terms or payment or delivery delinquencies in respect of the acquired royalty and associated production, including the credit risk associated therewith; volatility in the demand, supply and market prices for petroleum products, including bitumen, diluent and blended products; volatility in exchange rates; long-term reliance on third parties to provide necessary services to Pengrowth to develop the Lindbergh and Muriel Lake assets; liabilities inherent in petroleum and natural gas operations; uncertainties associated with estimating crude oil, natural gas and NGL reserves and future production levels; increased costs incurred by Pengrowth Lindbergh and Muriel Lake assets; the ability of Pengrowth to meet current and future financial commitments to third parties, lenders, and PrairieSky (as a royalty owner), including ability to raise capital to sustain and expand the Lindbergh and Muriel Lake assets; incorrect assessments of the value of the assets by PrairieSky; risks related to the environment and changing environmental laws in relation to the operations conducted on the assets, including carbon pricing; technological advances related to thermal oil projects; claims made or legal actions brought or realized against PrairieSky, its properties or assets (including the acquired assets); a failure by PrairieSky to hire or retain key personnel; a decrease or elimination of the payment of dividends by PrairieSky as a result of a board determination or restrictions under applicable agreements or corporate laws; general economic, market and business conditions; and changes in tax or environmental laws or royalty or incentive programs relating to the oil and natural gas industry. Risks related to PrairieSky's business and the assets generally are described in more detail in PrairieSky annual information form for the year ended December 31, 2015, which is available under PrairieSky's profile on SEDAR at www.sedar.com.

With respect to forward-looking information contained in this press release, the following assumptions have been made including: that the Transaction and Financing will close on the terms and on the timing expected; that the required regulatory approvals and satisfaction of all conditions to closing of the Transaction and the Financing will be obtained and on the timeframes contemplated; that the Transaction will be successfully completed and the parties and their security holders will obtain the anticipated benefits of the Transaction; that Pengrowth or its successors will comply with, and PrairieSky will enforce terms and contractual provisions, as applicable in order to receive payments in respect of the assets; that Pengrowth or its successors will operate in a safe, efficient and effective manner; that Pengrowth or its successors receive any required regulatory approvals in a timely manner; that Pengrowth or its successors have the willingness and financial capability to continue to develop and invest additional capital in the Lindbergh and Muriel Lake properties; that Pengrowth or its successors are able to obtain financing on acceptable terms to fund exploration and development capital expenditures; as to the field production rates, decline rates and the well performance and characteristics of the acquired assets; the timing, cost and ability of third parties, including Pengrowth, to access, maintain or expand necessary facilities and/or secure adequate product transportation and storage; the ability of Pengrowth or its successors to successfully market its respective petroleum products or, for royalty payments taken-in-kind by PrairieSky, if any, the ability of PrairieSky or a third party marketer to successfully market PrairieSky's in-kind petroleum products; the ability of PrairieSky to obtain and retain qualified staff and services in a timely and cost efficient manner; the absence of any material litigation or claims against PrairieSky or the assets; the general stability of the economic and political environment and the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which PrairieSky has an interest in oil and natural gas properties; and future crude oil, natural gas and natural gas liquids prices and currency, exchange and interest rates.

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 acquisitions. These risks and uncertainties include risks relating to the potential for disputes to arise with counterparties, and limited ability to recover indemnification under certain agreements. The foregoing and other risks are described in more detail in PrairieSky's MD&A, and the Annual Information Form for the period ended December 31, 2015 under the headings "Risk Management" and "Risk Factors", respectively, each of which is available at 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.

ADVISORY REGARDING RESERVES AND CONTINGENT RESOURCES

The estimates of reserves contained in this press release are based on an independent evaluation of reserves and contingent resources attributable to the Lindbergh project effective September 30, 2016 conducted by GLJ, using the October 1, 2016 GLJ price forecast and prepared in accordance with the definitions, standards and procedures contained in Canadian Oil and Gas Evaluation Handbook and

National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* (the "GLJ Report"). Proved reserves attributable to the Lindbergh property pursuant to the GLJ Report were estimated to be 147.9 MMbbls and the proved plus probable reserves were 319.1 MMbbls.

Proved reserves refers to those reserves that can be estimated with a high degree of certainty to be recoverable; it is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves refers to those additional reserves that are less certain to be recovered than proved reserves; it is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10 percent probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves.

All reserves and production information herein in respect of the Lindbergh project are based upon Pengrowth's company interest working interest share of reserves or production plus Pengrowth's royalty interest, being Pengrowth's interest in production and payment that is based on the gross production at the wellhead, before royalties and using GLJ's October 1, 2016 forecast prices and costs in respect of the September 30, 2016 Lindbergh reserve and contingent resource update. Numbers presented may not add due to rounding.

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's common shares trade on the Toronto Stock Exchange under the symbol PSK.

FOR FURTHER INFORMATION PLEASE CONTACT:

PrairieSky Royalty Ltd.
Investor Relations
(587) 293-4000

www.prairiesky.com