Lone Pine Resources Inc.
Lone Pine Resources Canada Ltd.

Combined and Consolidated Financial Statements

As at and for the Year Ended December 31, 2015

Dated: April 5, 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lone Pine Resources Inc. and Lone Pine Resources Canada Ltd.

We have audited the accompanying combined and consolidated financial statements of Lone Pine Resources Inc. and Lone Pine Resources Canada Ltd., which comprise the combined and consolidated statements of financial position as at December 31, 2015 and 2014, and the combined and consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined and consolidated financial statements

Management is responsible for the preparation and fair presentation of these combined and consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined and consolidated 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 combined and consolidated 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 combined and consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined and consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined and consolidated 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 combined and consolidated 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 combined and consolidated financial statements present fairly, in all material respects, the financial position of Lone Pine Resources Inc. and Lone Pine Resources Canada Ltd. as at December 31, 2015 and 2014, and its financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Calgary, Canada
April 5, 2016

Chartered Professional Accountants

COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at *($000s)*	Note	December 31, 2015	December 31, 2014
ASSETS			
Cash and cash equivalents	19	13,021	15,258
Accounts receivable	19	6,582	7,069
Inventory		471	380
Prepaid expenses and other assets		1,139	1,443
Derivative instruments – current	19	9,531	14,643
Total current assets		30,744	38,793
Exploration and evaluation	5	48,314	57,351
Property and equipment	6	115,272	104,480
Derivative instruments	19	3,918	5,649
Other assets		657	919
Total assets		198,905	207,192
LIABILITIES			
Accounts payable and accrued liabilities	19	8,945	10,315
Current portion of decommissioning liability	9	3,500	3,000
Total current liabilities		12,445	13,315
Preferred Shares	8	166,171	126,625
Preferred Shares – conversion liability	8	26,450	26,450
Decommissioning liabilities	9	67,002	55,325
Other liabilities		899	904
Total liabilities		272,967	222,619
Commitments and Contingencies	22		
SHAREHOLDERS' DEFICIT			
Share capital	10	73,912	73,912
Contributed surplus	11	1,024,623	1,023,364
Accumulated deficit		(1,172,884)	(1,112,990)
Accumulated other comprehensive income (“AOCI”)		287	287
Total deficit		(74,062)	(15,427)
Total liabilities and shareholders' deficit		198,905	207,192

See accompanying notes to the combined and consolidated financial statements.

Approved by the Board of Directors,

(signed)
Patrick McDonald
Chair of the Board of Directors and Director

(signed)
Ajay Sabherwal
Chair of the Audit and Reserves Committee and Director

COMBINED AND CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended *($000s)*	Note	**December 31, 2015**	December 31, 2014
REVENUE			
Oil and natural gas revenue		**39,335**	111,467
Royalties		**(2,190)**	(13,456)
Oil and natural gas revenue, net of royalties		**37,145**	98,011
Unrealized gain (loss) on derivative instruments	19	**(6,843)**	20,292
Realized gain (loss) on derivative instruments	19	**16,785**	(6,719)
		47,087	111,584
EXPENSES			
Operating	15	**15,959**	35,787
General and administrative	16	**12,430**	11,557
Depletion and depreciation	6	**21,436**	39,370
Exploration and evaluation	5	**545**	11,403
Loss (gain) on sale of properties	6	**197**	(3,512)
Gain on extinguishments of financial liabilities – net	14	**—**	(104,948)
Impairment loss	5, 6	**13,298**	162,532
Loss on foreign exchange	8	**25,498**	5,179
Finance costs	17	**16,145**	16,563
Reorganization	18	**1,415**	11,048
Total expenses		**106,923**	184,979
Net loss before taxes		**(59,836)**	(73,395)
Current taxes	12	**58**	—
Net loss and comprehensive loss		**(59,894)**	(73,395)

See accompanying notes to the combined and consolidated financial statements.

COMBINED AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

($000s)	Note	**Share Capital**	**Contributed Surplus**	**Accumulated Deficit**	**AOCI**	**Total Deficit**
Balance at January 1, 2015		73,912	1,023,364	(1,112,990)	287	(15,427)
Share-based compensation	11	**—**	**1,259**	**—**	**—**	**1,259**
Net loss		**—**	**—**	**(59,894)**	**—**	**(59,894)**
Balance at December 31, 2015		**73,912**	**1,024,623**	**(1,172,884)**	**287**	**(74,062)**

($000s)	Note	Share Capital	Contributed Surplus	Accumulated Deficit	AOCI	Total Deficit
Balance at January 1, 2014		747,340	273,818	(1,039,595)	287	(18,150)
Cancellation of share capital	10	(747,340)	747,340	—	—	—
Issuance of common shares	10	73,912	—	—	—	73,912
Share-based compensation	11	—	2,206	—	—	2,206
Net loss		—	—	(73,395)	—	(73,395)
Balance at December 31, 2014		73,912	1,023,364	(1,112,990)	287	(15,427)

See accompanying notes to the combined and consolidated financial statements.

COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended *($000s)*	Note	**December 31, 2015**	December 31, 2014
OPERATING ACTIVITIES			
Net loss and comprehensive loss		**(59,894)**	(73,395)
Adjustments for non-cash items:			
Impairment loss	5, 6	**13,298**	162,532
Gain on extinguishments of financial liabilities - net	14	**—**	(104,948)
Unrealized loss (gain) on derivative instruments	19	**6,843**	(20,292)
Depletion and depreciation	6	**21,436**	39,370
Exploration and evaluation	5	**545**	11,403
Accretion and financing charges	9, 17	**15,317**	11,700
Unrealized loss on foreign exchange		**25,498**	5,142
Loss (gain) on sale of property and equipment	6	**197**	(3,512)
Share-based compensation	11	**1,217**	1,831
Amortization of deferred cost		**510**	1,047
Payment of decommissioning liabilities	9	**(1,389)**	(306)
Other, net		**(463)**	(315)
Change in non-cash working capital	13	**(2,348)**	236
Cash from operating activities		**20,767**	30,493
FINANCING ACTIVITIES			
2014 Credit Facility – borrowings	4	**—**	307,706
2014 Credit Facility – repayments	4	**—**	(307,706)
2014 Credit Facility - cancellation fee	4	**—**	(4,445)
Proceeds from Preferred Shares	4, 8	**—**	111,358
Net proceeds (repayments) from 2011 Credit Facility	4	**—**	(178,570)
DIP Credit Facility - borrowings	4	**—**	10,000
DIP Credit Facility – repayments	4	**—**	(10,000)
Debt issuance costs		**(217)**	(2,649)
Finance lease payments		**—**	(2,791)
Backstop fee		**—**	(4,454)
Cash settlements on unsecured notes		**—**	(83)
Cash used in financing activities		**(217)**	(81,634)
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	5	**(21,250)**	(9,659)
Property and equipment expenditures	6	**(3,365)**	(35,153)
Proceeds on sale of property and equipment	6	**150**	111,494
Change in non-cash working capital	13	**1,678**	(6,622)
Cash from (used in) investing activities		**(22,787)**	60,060
Change in cash and cash equivalents		**(2,237)**	8,919
Cash beginning of year		**15,258**	6,339
Cash and cash equivalents end of year		**13,021**	15,258

See accompanying notes to the combined and consolidated financial statements.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

1. COMBINED REPORTING ENTITIES

Lone Pine Resources Inc. ("Lone Pine Resources") was incorporated under the laws of the state of Delaware, United States. Lone Pine Resources Canada Ltd. ("LPR Canada") was incorporated under the laws of the province of Alberta, Canada. In these combined and consolidated financial statements (the "annual financial statements"), Lone Pine Resources and LPR Canada are collectively referred as the "Company" or "Lone Pine".

Lone Pine is an independent oil and natural gas exploration, development and production company based in Calgary, Alberta, Canada with operations exclusively in Canada. The principal office of Lone Pine is located at 640 – 5th Avenue S.W., Calgary, Alberta.

Lone Pine's reserves, producing properties and exploration prospects are located in the provinces and territories of Alberta, British Columbia, Quebec, and the Northwest Territories. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these annual financial statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The annual financial statements were approved and authorized for issue by the Audit and Reserves Committee of the Board of Directors of Lone Pine on April 5, 2016.

The Company's significant accounting policies under IFRS are presented in Note 3.

(b) Principles of Combination and Consolidation

On January 31, 2014, Lone Pine emerged from the Creditor Protection Proceedings (as herein defined and as discussed in Note 4) that restructured the Company and resulted in Lone Pine Resources no longer having control of its subsidiary, LPR Canada, based on the definition of control under IFRS 10 – *Consolidated Financial Statements.* However, as a direct result of and concurrent with the Creditor Protection Proceedings (as herein defined), Lone Pine Resources and LPR Canada are controlled through direct and indirect ownership (as defined in IFRS 10) by a single majority investor. As a result, Lone Pine Resources and LPR Canada have been presented on a combined and consolidated basis in these annual financial statements. The entirety of the assets and undertaking of Lone Pine Resources and LPR Canada, but for the liabilities extinguished as the result of the Creditor Protection Proceedings are the same both before and after the Creditor Protection Proceedings. Accordingly, the presentation of the combined financial statements after January 31, 2014 as a continuation of Lone Pine before January 31, 2014 is considered the most meaningful presentation of financial information for the legal structure and for financial statement users.

(c) Basis of Measurement

The annual financial statements have been prepared on the historical cost basis except for derivative instruments that are measured at fair value.

(d) Functional and Presentation Currency

The annual financial statements are presented in Canadian dollars, which is the Company's functional currency. All references to US$ are to United States dollars.

(e) Use of Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the annual financial statements are as follows:

- The Company's oil and gas assets are grouped into cash generating units ("CGUs"). CGUs are defined as the lowest level of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretation. Factors considered in the classification include the integration between assets, geological formation, geographical proximity, the existence of a common sales point and shared processing facilities and the way in which management monitors its operations. The recoverability of the Company's oil and gas assets is assessed at the CGU level, and therefore, the determination of a CGU and its related costs could have a significant impact on impairment losses or impairment reversals;

- Reserve engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering, economic and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgement of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; (iii) the determination of net recoverable amount of oil and gas properties for impairment assessment and measurement, and (iv) the determination of reserve lives which affect the timing of decommissioning activities, all of which could have a material impact on earnings and financial positions;

- Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs and operating costs. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgement is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a change in: market value of assets, estimate of future prices and costs, a change in estimated quantity of reserves and appropriate discount rates. Management will determine whether a change in one or more indicators of impairment or impairment reversal results in a change in the estimated recoverable amount of the asset. Accordingly, the impact in the annual financial statements of future periods could be material;

- The annual financial statements have been prepared under the premise that Lone Pine Resources and LPR Canada are under common control. When assessing control, the Company considers the following factors:

  - the purpose and design of the Company;
  - the relevant activities and how decisions about those activities are made;
  - the rights of the investors and their ability to direct the relevant activities;
  - the investors' exposures or rights to variable returns from their involvement with the Company; and
  - the investors' ability to use its power over the Company to affect the amount of their returns.

  The assessment of these factors is not clear-cut and significant judgement is required in determining whether control exists.

  Lone Pine Resources holds a single class C multiple voting share of LPR Canada that carries approximately 75% of the total voting power of all outstanding shares of LPR Canada entitled to vote generally in the election of directors of LPR Canada, however the Company concluded that Lone Pine Resources does not have control over LPR Canada after assessing the factors above. Lone Pine Resources' exposure to variable returns from its involvement with LPR Canada is nominal given its 1/100,000,000th equity ownership in LPR Canada. Lone Pine Resources' ability to use its voting power to affect its returns is also limited by the special approval rights in the Preferred Shares (as herein defined). Those rights pertain to corporate matters including declaration of dividends by LPR Canada, redemption of any equity securities and voluntary liquidation. Therefore, after the implementation of the Plan (as herein defined), Lone Pine Resources has ceased consolidating the financial statements of LPR Canada;

- Amounts recorded for decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning expenditures, inflation rates and discount rates. Actual costs and cash outflows can differ from estimates because of changes in law and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Decommissioning liabilities are recognized in the period when it becomes probable that there will be a future cash outflow;

- The classification of share-based compensation plans as equity-settled or cash-settled requires judgement in instances where both outcomes are possible of occurrence (and are outside the control of the issuing entity and the holders). Compensation costs recorded pursuant to share-based compensation plans are subject to the estimated fair values of the awards on the grant date (including any adjustments related to the probability of achievement of non-vesting conditions) and the estimated number of units that will ultimately vest. Under the Company's 2014 Equity Incentive Plan ("EIP"), restricted share units ("RSU") are granted to directors, officers and employees. The classification of the RSU as equity-settled or cash-settled requires assessing the probability of occurrence of various corporate events, some of which may lead to cash-settlement. RSUs are currently accounted for as equity-settled awards. Management considers the scenarios that may lead to cash-settlement as occurring in limited circumstances with low likelihood of occurrence. No adjustments have been made to the estimated fair values of the awards related to the probability of achieving non-vesting conditions as these conditions are expected to occur;

- Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income;

- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions. Lone Pine recognizes net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted;

- The determination of fair value requires judgement and is based on market information, where available and appropriate. Fair value is best evidenced by an independent quoted market price for the same asset or liability in an active market. However, quoted market prices and active markets do not always exist. In those instances, fair valuation techniques are used. The Company applies judgement in determining the most appropriate inputs and the weighting ascribed to each such input as well as its selection of valuation methodologies. The calculation of fair value is based on market conditions as at each reporting date, and may not be reflective of ultimate realizable value;

- Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

- Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post license exploration and evaluation assets and to development and producing CGU properties requires the use of estimates and judgements and is by its nature subject to measurement uncertainty; and

- Lone Pine provides postretirement health care benefits to certain retirees and their spouses. An independent actuary determines the costs of the Company’s employee future benefit program using certain management assumptions and estimates such as, expected health care costs, mortality rates and discount rates. The related obligation and expense recorded could increase or decrease if there were to be a change in these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below were applied consistently to all periods presented in these annual financial statements.

(a) Basis of Combination and Consolidation

The consolidated and combined financial statements include the accounts of Lone Pine Resources Inc., Lone Pine Resource Canada Ltd. and their wholly owned subsidiary. The subsidiary is fully consolidated from the date on which the Company obtains control and continues to be consolidated until the date such control ceases. Control is achieved when Lone Pine is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, Lone Pine controls its subsidiary as the Company has all of the following via its 100% ownership:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All intergroup balances, income and expenses and unrealized gains and losses from intergroup transactions are eliminated in full.

The combined and consolidated financial statements of the Company as of December 31, 2015 include the following subsidiary:

Subsidiary	Country of incorporation	% Equity interest
Lone Pine Resources (Holdings) Inc.	Canada	100%

(b) Joint Arrangements

Lone Pine conducts some of its oil and gas activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. Lone Pine does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, Lone Pine recognizes in the financial statements its share of assets, liabilities, revenues and expenses of the arrangements.

(c) Revenue

Revenue from the sale of petroleum and natural gas is recognized based on volume delivered at contractual delivery points and rates received upon delivery. The costs associated with the delivery, including operating, transportation and production-based royalty expenses, are recognized in the same period in which the related revenue is earned and recorded.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(d) Exploration and Evaluation Assets and Property and Equipment

(i) Recognition and Measurement

Exploration and Evaluation ("E&E") Assets

Pre-license costs are recognized in the combined and consolidated statements of loss and comprehensive loss as incurred.

E&E costs, including the costs of acquiring licenses, obtaining geological and geophysical data, drilling and completing E&E wells, and building associated facilities are initially capitalized as E&E assets according to the nature of the expenditure. E&E assets may include estimated decommissioning costs associated with

E&E decommissioning obligations. The costs are accumulated by well, field or exploration area pending determination of technical feasibility and commercial viability. E&E assets are not amortized.

The technical feasibility and commercial viability of extracting a hydrocarbon resource are considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E assets attributable to those reserves are tested for impairment and if estimated recoverable amounts exceed carrying values the E&E assets, are transferred to petroleum and natural gas properties, within property and equipment assets. The cost of undeveloped land that expires and E&E expenditures determined to be unsuccessful are derecognized by recording exploration and evaluation expense.

Production and Development ("P&D") Assets

P&D assets generally represent costs incurred in acquiring and developing proved and/or probable reserves, and bringing in or enhancing production from such reserves. Development costs include the initial purchase price and directly attributable costs relating to land and mineral leases, geological and seismic studies, property acquisitions, development drilling, construction of gathering systems and infrastructure facilities, decommissioning costs, transfers from E&E assets, and for qualifying assets, borrowing costs. These costs are accumulated on a field or an area basis (major components). The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

The production and development items of property and equipment, which includes oil and natural gas development, properties and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, net of impairment reversals. Development assets include certain stock equipment that is expected to be used in the normal course of P&D field development.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the net proceeds from disposal with the carrying amount of property and equipment and are recognized on a net basis on the combined and consolidated statements of loss and comprehensive loss.

(ii) Depletion and Depreciation

The net carrying value of P&D assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are prepared by management and reviewed by independent reserve engineers at least annually.

Proved plus probable reserves are estimated annually by independent and qualified reserve evaluators and represent the estimated quantities of petroleum and natural gas which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves are the remaining quantities of, petroleum and natural gas from known accumulations estimated to be recoverable from a given date forward. The estimates of reserves are determined from drilling, geological, geophysical and engineering data based on established technology and specified economic conditions. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

The guidelines for the determination and classification of reserves are outlined in the Canadian Oil and Gas Evaluation Handbook. Proven plus probable reserve estimate is defined as a “best estimate” of the remaining recoverable quantities of, petroleum and natural gas. This estimate should best represent the expected outcome, on a neutral basis, with no optimism or conservatism. In probabilistic terms, there should be at least a 50 percent probability that the quantities actually recovered in the future will equal or exceed the proven plus probable reserve estimate.

For other assets, depreciation is recognized in profit or loss on a straight-line or declining-balance basis over the estimated useful life of each part of an item of property and equipment. Leasehold improvements are depreciated over the term of the lease. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Computer equipment is depreciated using the declining-balance basis at a rate of 30 percent per year. Office furniture is depreciated on a straight line basis over five years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iii) Impairment

E&E Assets

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) at such time that facts and circumstances indicate that the carrying amount exceeds the recoverable amount. If the recoverable amount does not exceed the carrying amount, an impairment adjustment is recognized in comprehensive loss.

For the purposes of impairment testing, E&E assets are allocated to CGUs based on geographical proximity. E&E assets that are not related to established CGUs with reserves, such as undeveloped land holdings, seismic, equipment, and exploration drilling in Quebec, the Northwest Territories and other exploratory properties, are subject to impairment testing based on the nature and estimated recoverable amount of the respective cost components.

P&D Assets

Lone Pine assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s fair value less cost of disposal (“FVLCD”) and its value-in-use (“VIU”). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGU level. A CGU is a group of assets that Lone Pine aggregates based on their ability to generate largely independent cash flows. The Company has four principal operating CGUs – Evi, Wheatland, Hayter and Other, after disposing the Deep Basin CGU in August 2014.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU without consideration for potential enhancement or improvement of the underlying asset’s performance. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods.

(e) Financial Instruments

(i) Recognition and Measurement

Lone Pine recognizes financial assets and financial liabilities, including derivatives, on the combined and consolidated statements of financial position when the Company becomes a party to the contract. The Company initially measures all financial instruments at fair value. Subsequent measurement of the financial instrument is based on its classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. Lone Pine has not designated any financial asset or liability at fair value through profit or loss.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as either held-to-maturity or loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial liabilities are recognized in comprehensive loss over the expected life of the instrument. Financial assets classified as available-for-sale are measured at fair values with changes in those fair values recognized in other comprehensive income.

(ii) Liabilities and Equity

Financial instruments are classified as a liability or equity based on the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. A contract is also classified as a liability if it is a non-derivative and could obligate the Company to deliver a variable number of its own shares or it is a derivative other than one that can be settled by the delivery of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. An instrument is classified as equity if it evidences a residual interest in the Company's assets after deducting all liabilities.

(iii) Derivative Financial Instruments

As described in Note 19, derivative financial instruments are used by the Company to manage its exposure to market risks relating to commodity prices. The Company's policy is not to use derivative financial instruments for speculative purposes. The estimate of fair value of all derivative instruments is based on quoted market prices, or in their absence, third party market indications and forecasts and includes an estimate of the credit quality of counterparties to the derivative instruments. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

The Company has not designated its financial derivative contracts as effective accounting hedges, and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are measured at fair value, with any gains and losses recorded in comprehensive loss.

(iv) LPR Canada Preferred Shares

The LPR Canada Series 1 Preferred Shares (the "Preferred Shares") are puttable after eight years and immediately convertible at the holder's option. The Preferred Shares are classified as financial liabilities due to the holder's put option. Further, the Preferred Shares are denominated in United States currency, resulting in the conversion option classified as an embedded derivative (the "Preferred Shares – Conversion Liability"). The Preferred Shares are initially measured at fair value and subsequently at amortized cost. The Preferred Shares – Conversion Liability is initially measured at fair value and subsequently at cost, less impairment, as the conversion option is linked to and must be settled by delivery of LPR Canada common shares, which do not have quoted market prices in an active market and cannot be reliably measured.

(v) Derecognition of Financial Instruments

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying value of the liability and the ultimate consideration paid is recognized in the combined and consolidated statement of loss. If equity instruments are issued to extinguish a financial liability, the equity instruments are treated as consideration paid and measured at their fair value at the date of extinguishment.

A financial asset is derecognized when (1) the rights to receive cash flows from the assets have expired or (2) the Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the assets, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

(vi) Impairment

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that have similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event following recognition. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(f) Fair Value Measurement

Lone Pine measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCD to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 19. Fair value 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

- the principal market for the asset or liability, or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Lone Pine uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the annual financial statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, Lone Pine determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(g) Provisions

(i) Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the combined and consolidated statements of loss net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A contingency 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.

(ii) Decommissioning Liabilities

Lone Pine recognizes decommissioning liabilities related to its obligations to dismantle, retire and reclaim its oil and gas properties. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. The present value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligation is subsequently adjusted at the end period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement or towards the settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Share-Based Compensation

(i) General

Lone Pine has not offered any cash-settled awards. For equity settled share-based awards granted to officers, directors, employees and certain consultants, the grant date fair value of such awards is recognized as compensation costs within operating and general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. The Company also capitalizes a portion of the share-based compensation that is directly attributable to capital projects, with a corresponding decrease to compensation expense.

The fair value of option-based awards is measured using Black-Scholes option pricing model. Non-option based awards are valued based on the fair value of the underlying share units at grant date. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. Upon the exercise of the share-based awards, any consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested awards expire, previously recognized compensation expense associated with such awards is not reversed. In the event that awards are forfeited, previously recognized compensation expense associated with the unvested portion of such awards is reversed.

(ii) RSUs

The settlement of RSUs is contingent on the occurrence of certain corporate change events, which may result in equity-settlement, or cash-settlement as certain cash redemption rights embedded in the underlying shares may be triggered. The Company assesses the probability of equity or cash settlement at each reporting date until the RSUs are settled. Currently, the RSU are classified as equity-settled awards. If cash-settlement becomes probable in the future, then a cash-settled liability will be recognized at fair value, the cumulative balance in contributed surplus will be reversed, and the difference between the two amounts will be recorded to net earnings.

(i) Employee Benefits and Post-Retirement Obligation

LPR Canada sponsors a group savings plan for its employees. Contributions made under the plan are expensed as the plan benefits are earned by the employees.

The Company also sponsors an unfunded post-retirement benefits plan to certain retirees, which is closed to new entrants. Expense for the post-retirement benefits plan includes the interest cost on post-retirement benefits obligations.

The liability of the post-retirement benefits plan is actuarially determined using the projected unit credit actuarial cost method prorated on service and reflects the Company's best estimate of future health care costs and retiree longevity. The accrued benefit obligation is discounted using the market interest rate on high-quality corporate debt instruments as at the measurement date. The Company accounts for its post-retirement benefits plan by recognizing the underfunded status of the plan as a liability in its combined and consolidated statements of financial position and recognizing actuarial changes in funded status in the year in which the changes occur through other comprehensive income, unless changes related to discount rates, then to the combined and consolidated statements of loss.

(j) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Reorganization Costs

Reorganization costs are non-recurring costs related to the Company's Creditor Protection Proceedings completed in 2014 and to other corporate restructuring activities. Reorganization costs include employment termination payments, accelerated share-based compensation expense, office closure costs, professional fees, and key employee retention bonus program charges.

(l) Cash Equivalents

Cash equivalents include market deposits and similar type instruments, with an original maturity of three months or less when purchased.

(m) Inventory

Inventories are stated at the lower of cost and net realizable value. The cost of materials is the purchase cost, determined on first-in, first-out basis. The net realizable value is based on the estimated selling price in the ordinary course of business, less estimated costs necessary to sell.

(n) Foreign Currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect to the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are not subsequently re-translated. Foreign currency differences arising on translation are recognized in profit or loss.

(o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of the contract. Leases, which transfer substantially all of the risks and rewards of ownership to the Company, are classified as finance leases. Finance leases are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments and are depreciated over the shorter of the estimated useful life of the asset and the lease term. As at December 31, 2015 Lone Pine did not have any finance leases. Other leases are classified as operating leases and payments are recognized as an expense in the period incurred. Lease inducement costs are initially capitalized and amortized to net income over the lease terms.

(p) Adoption of New Accounting Standards and New Accounting Pronouncements

New and Amended Accounting Standards and Interpretations Adopted

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015.

New Accounting Pronouncements

- In July 2014, the IASB completed the final elements of IFRS 9 - *Financial Instruments.* The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 - *Financial Instruments: Recognition and Measurement*. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its financial statements;

- In May 2014, the IASB published IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15") replacing IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and several revenue-related interpretations. The new standard establishes a single revenue recognition framework that applies to contracts with customers and requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently assessing the adoption impact to its financial statements; and

- In January 2016, the IASB issued IFRS 16 - *Leases*, which replaces IAS 17 – *Leases*. For lessees, IFRS 16 removes the classification of leases as financing or operating leases, effectively treating all leases as finance leases which requires the recognition of lease assets and lease obligations. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS

15 Revenue from Contracts with Customers. The Company is currently evaluating the impact of the standard on its financial statements.

4. CREDITOR PROTECTION PROCEEDINGS

On September 25, 2013, the Company commenced proceedings under the Companies' Creditors Arrangement Act ("CCAA") in the Court of Queen's Bench of Alberta (the "CCAA Court") and ancillary proceedings under Chapter 15 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "U.S. Bankruptcy Court"). Lone Pine Resources, LPR Canada and all other subsidiaries of the Company were parties to the CCAA and Chapter 15 proceedings (collectively, the "Creditor Protection Proceedings").

On January 9, 2014, the CCAA Court issued an order (the "Sanction Order") sanctioning and approving Lone Pine's previously announced first amended and restated plan of compromise and arrangement (the "Plan") under the CCAA. On January 10, 2014, the U.S. Bankruptcy Court issued an order recognizing and enforcing the Sanction Order in the United States under Chapter 15 of the U.S. Bankruptcy Code.

On January 31, 2014, the Company implemented the Plan and emerged from the Creditor Protection Proceedings. Implementation of the Plan resulted in comprehensive capital reorganization and financial restructuring of the Company. The following is a summary of the material features of the Plan.

- Compromised debt and accounts payable exchange: The Plan resulted in the exchange of $213.6 million of all outstanding 10.375% senior notes due June 2017 (the "Senior Notes", including accrued interest, together with certain affected accounts payables of $5.9 million for a total of 24,985,757 Class A voting common shares of LPR Canada ("LPR Canada Class A Shares") and 24,985,757 Class A voting common shares of Lone Pine Resources ("Lone Pine Class A Shares");

- New investment: The Plan provided for a US$100 million offering of the Preferred Shares and multiple voting shares of LPR Canada. As a result of the offering, 74,999,996 Preferred Shares and 74,999,996 Lone Pine Resources multiple voting common shares were issued with total gross proceeds of $111.4 million;

- 2014 Credit Facility: On January 31, 2014, LPR Canada entered into a $130 million credit facility (the "2014 Credit Facility") with a syndicate of banks. The 2014 Credit Facility became effective upon completion of the Creditor Protection Proceedings and replaced the 2011 Credit Facility (as herein defined) and debtor-in-possession credit facility ("DIP Credit Facility");

- Repayment of the 2011 Credit Facility and the DIP Credit Facility: The outstanding principal and accrued interest on the 2011 Credit Facility ($178.6 million) and the DIP Credit Facility ($10.0 million) were repaid in full and all security granted to lenders under each facility was released;

- Cancellation of existing Lone Pine shares: The Plan resulted in the cancellation for no consideration of all previously issued and outstanding common shares of Lone Pine Resources. The Plan also provided that all potential claims against the Company resulting from the ownership, purchase or sale of common stock in Lone Pine Resources prior to implementation of the Plan were cancelled; and

- Corporate structure: LPR Canada ceased to be a wholly-owned subsidiary of Lone Pine Resources. Lone Pine Resources was issued a single class C multiple voting share of LPR Canada which carries approximately 75% of the total voting power of all outstanding shares of LPR Canada entitled to vote generally in the election of directors of LPR Canada. Lone Pine Resources no longer has any economic interest in LPR Canada as a result of this transaction.

5. EXPLORATION AND EVALUATION ASSETS

($000s)	**December 31, 2015**	December 31, 2014
Cost Balance – beginning of year	85,675	111,705
Additions	**24,197**	12,067
Transfers to oil and gas property and equipment (Note 6)	**(22,171)**	(94)
Exploration and evaluation expense	**(545)**	(11,403)
Expiries of previously impaired assets	**(9,772)**	—
Disposition of undeveloped land	**—**	(113)
Disposal – Deep Basin E&E (Note 6)	**—**	(26,487)
Cost Balance – end of year	**77,384**	85,675

Provision for impairment – beginning of year	(28,324)	(19,312)
Impairment loss	**(10,518)**	(35,321)
Expiries of previously impaired assets	**9,772**	—
Disposal – Deep Basin E&E (Note 6)	**—**	26,309
Provision for impairment – end of year	**(29,070)**	(28,324)
Net book value – beginning of the year	57,351	92,393
Net book value – end of the year	**48,314**	57,351

In the year ended December 31, 2015, the Company recorded impairment of E&E assets of $8.1 million as a result of changes in management development plans due to significant and prolonged decreases in commodity prices. This included impairments of $1.5 million related to the Evi CGU, $0.2 million related to the Hayter CGU, $0.4 million related to the Other CGU and $6.0 million related to exploratory areas that are not related to established CGUs with reserves. E&E assets were written down to their estimated recoverable amounts of $nil based on the FVLCD. The FVLCD was determined using a market approach based on the estimated selling price of land, seismic, equipment and exploration drilling held in the related area considering recent transactions completed on similar assets. Key assumptions include the estimated selling prices of assets held considering the geographic location and related risk profile. The fair value measurement is non-recurring and is classified as level 3 in the fair value hierarchy (see note 3(f) for information on the fair value hierarchy).

Additional impairment of $2.4 million was recorded in 2015 related to the changes in the current year's decommissioning liability estimates on certain E&E assets that were impaired in previous years.

During 2014, the Company recognized an impairment loss of $26.3 million related to the Deep Basin CGU as a result of changes in management's future development plans to realize the value of E&E assets substantially through sales rather than through development. Upon the completion of the disposition, as outlined further in Note 6 (d), the related carrying costs and provision for impairment were removed from E&E assets.

In addition, in 2014, the Company recognized an impairment loss of $6.8 million against undeveloped land holdings in certain exploration areas. The recoverable values were estimated using recent transactions completed on similar assets. The remaining $2.2 million of impairment loss pertained to changes in decommissioning liability estimates on certain E&E assets that had been written off in the previous year.

During the year ended December 31, 2015, $0.5 million (2014 – $nil) of directly attributable general and administrative expenses including a nominal amount (2014 – $nil) of share-based compensation, were capitalized to E&E assets.

6. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Year Ended December 31, 2015
Cost:			
Balance-beginning of year	316,260	3,444	319,704
Additions	**12,390**	**389**	**12,779**
Disposals (c)	**(86)**	**—**	**(86)**
Transfer from E&E assets (Note 5)	**22,171**	**—**	**22,171**
Balance-end of year	**350,735**	**3,833**	**354,568**
Accumulated impairment, depletion and depreciation:			
Balance- beginning of year	(213,667)	(1,557)	(215,224)
Depletion and depreciation	**(20,919)**	**(590)**	**(21,509)**
Impairment loss (b)	**(2,630)**	**—**	**(2,630)**
Disposals (c)	**67**	**—**	**67**
Balance – end of year	**(237,149)**	**(2,147)**	**(239,296)**
Net book value:			
At beginning of year	102,593	1,887	104,480
At end of year	**113,586**	**1,686**	**115,272**

($000s)	Production and Development	Office Equipment	Year Ended December 31, 2014
Cost:			
Balance-beginning of year	491,767	3,437	495,204
Additions	39,671	7	39,678
Disposals (c) (d)	(215,272)	—	(215,272)
Transfer from E&E assets (Note 5)	94	—	94
Balance-end of year	316,260	3,444	319,704
Accumulated impairment, depletion and depreciation:			
Balance- beginning of year	(148,857)	(887)	(149,744)
Depletion and depreciation	(38,643)	(670)	(39,313)
Impairment loss (b)	(127,173)	—	(127,173)
Disposals (c) (d)	101,006	—	101,006
Balance – end of year	(213,667)	(1,557)	(215,224)
Net book value:			
At beginning of year	342,910	2,550	345,460
At end of year	102,593	1,887	104,480

As at December 31, 2015, an estimated $94.4 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2014 - $201.9 million).

(a) Capitalization of General and Administrative and Share-Based Compensation Expenses

During the year ended December 31, 2015, $0.3 million (2014 – $4.3 million) of directly attributable general and administrative expenses, including a nominal amount (2014 – $0.4 million) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

The Company conducted impairment tests of all its CGUs as at December 31, 2015 as a result of continued and prolonged declines in forecasted crude oil and natural gas prices. The FVLCD was estimated using pre-tax discount rates of 12% to 15% and using the following estimated commodity prices:

December 31, 2015[(1) (2)]	Edmonton Light Oil	AECO Natural Gas Price	Heavy Oil 25 API Hardisty
	($/bbl)	($/Mcf)	($/bbl)
2016	55.20	2.25	45.82
2017	69.00	2.95	58.65
2018	78.43	3.42	66.67
2019	89.41	3.91	76.00
2020	91.71	4.20	77.95
2021	93.08	4.28	79.12
2022	94.48	4.35	80.31
2023	95.90	4.43	81.51
2024	97.34	4.51	82.74
2025	98.80	4.59	83.98
2026[(3)]	100.28	4.67	85.24

(1) Source: Sproule price forecast, effective December 31, 2015
(2) The forecast benchmark prices listed above are adjusted for quality differentials, heat content and distance to market in performing the Company's impairment tests.
(3) Thereafter, annual increase of 1.5 percent.

The Company concluded that there was no impairment to P&D assets as a result of impairment test performed as at December 31, 2015.

During Q3 2015, an impairment test was performed as a result of continued declines in forward crude oil and natural gas prices which resulted in the recognition of $0.9 million of impairment in the Hayter CGU. The Hayter CGU was written down to the net recoverable amount of $1.8 million. The FVLCD was estimated using a risk adjusted pre-tax discount rate of 12%.

The remaining $1.7 million (2014 – $1.7 million) of impairment loss recognized in 2015 was comprised of $1.5 million (2014 – $1.4 million) related to the change in the current year's decommissioning liability estimates on certain properties with a carrying value of nil and $0.2 million (2014 – $0.3 million) on the write down of certain surplus equipment.

As at December 31, 2014, impairment testing was conducted on all the Company's CGUs as a result of annual reserve revisions and declining forward oil prices. As a result, an impairment loss of $125.5 million was recognized related to the Evi CGU to write down the carrying amount to the net recoverable amount of $95.5 million. The FVLCD was estimated using a risk adjusted pre-tax discount rate of 12%.

The recoverable amounts used in the impairment tests were based on the FVLCD, determined using the net present value of cash flows from oil and gas reserves estimated by the Company's independent evaluator and is therefore considered as level 3 under the fair value hierarchy (see Note 3(f)).

(c) Property and Equipment Disposals

During 2015, the Company sold certain surplus equipment and non-core assets. The proceeds from these disposals totaled $0.2 million (2014 – $1.5 million) and resulted in a gain on disposal of property and equipment totaling $0.2 million (2014 – $1.5 million).

(d) Deep Basin Disposition

On August 12, 2014, LPR Canada sold all the assets within its Deep Basin CGU for cash proceeds of $110.4 million net of disposition costs. The Deep Basin CGU was comprised of gas-weighted undeveloped and developed properties in the Narraway and Ojay fields, located in Alberta and British Columbia. The assets disposed of had a net carrying value of $108.4 and as such, a gain on sale of property and equipment in the amount of $2.0 million was recognized in year ended December 31, 2014.

7. LONG-TERM DEBT

As at December 31, 2015 and December 31 2014, Lone Pine had no outstanding long-term debt. Under the Company's credit facilities, $4.5 million of letters of credit had been issued as at December 31, 2015 (December 31, 2014 – $1.9 million).

The weighted average effective interest rate on letters of credit outstanding for the year ended December 31, 2015 was 2.3% (2014 – 2.8%). The weighted average effective interest rate on the 2014 Credit Facility borrowings for the year ended December 31, 2014 was 5.9%.

(a) Amended Credit Facility

On July 30, 2015, the Company renewed and amended its 2014 Credit Facility with a syndicate of banks (the "Amended Credit Facility"). Under the Amended Credit Facility, Lone Pine has a $40 million syndicated revolving term facility and a $10 million operating facility, which mature one year after the term-out date. Annually prior to the applicable term-out date, subject to the lenders' approval, Lone Pine may extend the term-out date by 364 days. The next term-out date was set at May 31, 2016; as such the maturity date of Amended Credit Facility is May 31, 2017.

Borrowings under the Amended Credit Facility may be in the form of Canadian prime loans, bankers acceptances, US base rate loans and Libor loans. Applicable margins per annum are as follows:

(i) for Canadian prime loans and US base rate loans, the margins are between 100 and 250 basis points ("bps") (2014 Credit Facility – 150 to 350 bps);
(ii) for Libor loans, bankers' acceptance and financial letters of credit, the margins range from 200 to 350 bps (2014 Credit Facility – 250 to 450 bps); and
(iii) standby fees on any undrawn borrowing capacity are between 50 to 87.5 bps (2014 Credit Facility – 63 to 113 bps) per annum.

The applicable margins and standby fees all depend on the debt to EBITDAX (as herein defined) ratio of the Company calculated at the Company's previous quarter-end. EBITDAX is defined as consolidated net income before financing charges, exploration expenses, income taxes, depreciation, depletion and amortization and other non-cash items of expense. For purposes of calculating covenants under the Amended and 2014 Credit Facility, EBITDAX (hereinafter referred to as "Adjusted EBITDAX") is determined using financial information from the most recent four consecutive fiscal quarters. Adjusted EBITDAX also includes adjustments for major acquisitions and material dispositions assuming that such transactions had occurred on the first day of the applicable calculation period.

The Amended Credit Facility includes terms and covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. The Amended Credit Facility also includes two financial covenants where at the end of each applicable quarterly period:

(i) total debt outstanding to Adjusted EBITDAX for a trailing 12-month period is required to be less than 3.0 to 1.0 (2014 Credit Facility – 3.0 to 1.0); and

(ii) current assets to current liabilities (including available borrowing capacity and excluding derivative instruments) is required to be greater than 1.0 to 1.0 (2014 Credit Facility – 1.1 to 1.0).

The Amended Credit Facility is collateralized by a demand debenture from LPR Canada and each of its restricted subsidiaries in the amount of $500 million granting a first priority security interest over all present and after-acquired personal property and a first floating charge over all other present and after-acquired property, together with a fixed charge and mortgage over its existing borrowing base assets. A fixed charge and mortgage over after-acquired borrowing base assets will only be granted under certain circumstances.

As at December 31, 2015, the Company was in compliance with all covenants under the Amended Credit Facility.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of LPR Canada's oil and natural gas properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is subject to a semi-annual redetermination, with the next redetermination scheduled for May 31, 2016. In addition to the scheduled semi-annual redeterminations, the lenders each have the discretion at any time, but not more often than once during any calendar year, to have the borrowing base re-determined.

As at December 31, 2015, the Company had $0.4 million of deferred costs related to its outstanding credit facilities included in other current assets (December 31, 2014 – $0.6 million) and $0.2 million included in other long-term assets (December 31, 2014 - $0.3 million).

(b) 2014 Credit Facility

On January 31, 2014, LPR Canada entered into the 2014 Credit Facility with a syndicate of banks, which was comprised of: (a) a $50 million syndicated facility and a $10 million operating facility (together, the "Revolving Facilities") that will mature one year after the term-out date; and (b) a $70 million term facility (the "Term Facility") that will mature on the earlier of (i) January 31, 2018 and (ii) the maturity of the Revolving Facilities. Annually prior to the applicable term-out date, subject to the lenders' approval, Lone Pine may extend the term-out date by one year. Initially, the term-out date was set at May 30, 2014, and the Company received a one-year extension to May 29, 2015 under the first amending agreement to the 2014 Credit Facility.

On August 12, 2014, Lone Pine entered into the second amending agreement to the 2014 Credit Facility (the "Second Amending Agreement"). The Second Amending Agreement provided for certain changes to the 2014 Credit Facility as follows: (i) consent to the disposition of the Deep Basin CGU properties; (ii) the Term Facility was repaid in full and cancelled and the Term Facility lender ceased to be a lender; (iii) an early termination fee was paid to the Term Facility lender; (iv) the borrowing base was amended to be $60 million and (v) consent was provided to terminate all of the Company's natural gas hedges. As a result of the Second Amending Agreement, the 2014 Credit Facility was then comprised of the $60 million Revolving Facilities.

With the cancellation of the Term Facility, a loss on the extinguishment for $6.1 million was recognized, which was comprised of $4.5 million early termination fee and $1.6 million accelerated amortization of deferred finance cost.

8. LPR CANADA PREFERRED SHARES

On January 31, 2014, the Company issued 75,000,000 of Preferred Shares and 74,999,996 Lone Pine Resources multiple voting common shares for total cash proceeds of $111.4 million (US$100.0 million). As at December 31, 2015, the Preferred Shares liability was $166.2 million (December 31, 2014 - $126.6 million). During the year ended

December 31, 2015, $25.6 million of unrealized loss (2014 - $5.1 million) was recognized related to the translation of United States dollar denominated shares to Canadian dollars at the prevailing rates.

For so long as the LPR Canada Class C multiple voting common share ("LPR Canada Class C Share") is outstanding, the Preferred Shares are convertible into LPR Canada Class B non-voting common shares ("LPR Canada Class B Shares"), otherwise, into LPR Canada Class A Shares. In either case, the number of LPR Canada Class A Shares or LPR Canada Class B Shares into which each Preferred Share is convertible will be based on a conversion ratio determined by dividing (a) the then-applicable redemption price of the Preferred Shares by (b) the conversion price of the Preferred Shares. Upon issuance on January 31, 2014, the redemption price and conversion price were both initially equal to the issue price of US$1.33 per share, such that the Preferred Shares were initially convertible into LPR Canada Class B Shares on a one-for-one basis. The redemption price of the Preferred Shares (the "Applicable Redemption Price") increases at a rate of 10% per annum, which results in an escalating conversion ratio. The conversion price is also subject to downward anti-dilution adjustments. At December 31, 2015, one Preferred Share was convertible into 1.20 LPR Canada Class B Shares.

Conversion of the Preferred Shares is at the holder's option, except that in the event of an initial public offering of LPR Canada all Preferred Shares will automatically convert into LPR Canada Class A Shares. The conversion option is classified as an embedded derivative (see Note 3(e)(ii)), with a value of $26.5 million recorded as Preferred Shares – Conversion Liability on the combined and consolidated statement of financial position as at December 31, 2015 and 2014.

The Preferred Shares are redeemable, in whole or in part, after four years at the option of LPR Canada and eight years at the option of the holder at a price per share equal to the Applicable Redemption Price. The redemption price will be paid, at the holder's election, in cash or through the issuance of LPR Canada Class A Shares or LPR Canada Class B Shares. If redeemed for shares, the number of shares issuable will be determined using the fair market value of those shares. If the holder elects to redeem for cash, the cash payment is limited to the paid-up capital of such redeemed Preferred Shares and any remaining amounts owing (the "Excess Amount") will be paid through the issuance of LPR Canada Class A Shares. Holders of any LPR Canada Class A Shares issued for the Excess Amount have the right, exercisable within 30 days following the issuance, to redeem their shares for cash amount equal to the fair market value of such shares. The Preferred Shares also have certain redemption rights in connection with a change of control transaction.

The Preferred Shares rank senior to the LPR Canada common shares with respect to distribution of assets in the event of dissolution and liquidation. Holders of the Preferred Shares have a right to receive, in cash or other assets, before any payment is made on any other class of shares, an amount equal to the greater of (a) the Applicable Redemption Price and (b) the amount the holders should receive as common shareholders assuming the Preferred Shares are convertible into common shares immediately prior to the liquidation.

9. DECOMMISSIONING LIABILITIES

($000s)	**December 31, 2015**	December 31, 2014
Balance – beginning of year	58,325	56,930
Liabilities incurred	**468**	420
Liabilities divested on properties sold	**—**	(6,443)
Payments	**(1,389)**	(306)
Change in estimates	**11,747**	6,143
Accretion of decommissioning liabilities	**1,351**	1,581
Sub total	**70,502**	58,325
Current portion – end of year	**3,500**	3,000
Long-term portion – end of year	**67,002**	55,325

The Company’s decommissioning liabilities result from its ownership interests in oil and natural gas assets and are estimated based on the Company’s net ownership interests in wells and facilities, the estimated costs to abandon and reclaim such properties and the estimated timing of these costs to be incurred in future years. At December 31, 2015, risk-free rates of 0.7% - 2.2% (December 31, 2014 – 1.6% - 2.8%) and an inflation rate of 1.7% (December 31, 2014 – 1.7%) were used to calculate the net present value of the decommissioning liabilities.

Changes in estimates in 2015 resulted in an increase in the decommissioning liabilities of $11.7 million (2014 – $6.1 million), of which $6.8 million (2014 – $4.2 million) related to the change in discount rate.

The Company has estimated the undiscounted total future liabilities of approximately $111.8 million (December 31, 2014 – $95.7 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 25 years.

10. SHARE CAPITAL

(a) Authorized

(i) Lone Pine Resources

As at December 31, 2013, Lone Pine Resources was authorized to issue an unlimited number of common shares. Upon implementation of the Plan on January 31, 2014, all previously issued and outstanding common shares were cancelled without any repayment of capital, or other compensation. As a result, the book value in the amount of $747.3 million was transferred from share capital to contributed surplus in shareholders’ equity. In accordance with the Plan, new common shares of Lone Pine Resources were issued.

Lone Pine Resources is authorized to issue a total of 315,000,000 shares of all classes of stock, consisting of 75,000,000 shares of Class A common stock, par value $0.01 per share, designated as “Class A Common Shares”; 225,000,000 shares of Class B common stock, par value $0.01 per share, designated as “Class B Multiple Voting Shares”; and 15,000,000 shares of preferred stock, par value $0.01 per share.

Upon implementation of the Plan, Lone Pine Resources issued 24,985,757 Class A Common Shares and 74,999,996 Class B Multiple Voting Shares. No shares of preferred stock were issued or are outstanding as at December 31, 2015.

Holders of Class A Common Shares are entitled to one vote per share. Holders of multiple voting common shares are entitled to one vote per share upon issuance, with such voting rights escalating by 10% per annum on a compounding basis.

Holders of both classes of common shares are entitled to receive dividends and other distributions when, as and if declared by the Lone Pine Resources Board of Directors and to receive pro rata the remaining property and assets of Lone Pine Resources upon its dissolution or liquidation.

(ii) LPR Canada

LPR Canada is authorized to issue an unlimited number of common shares and preferred shares with the preferred shares issuable in series.

Class A common shareholders are entitled to one vote per share at meetings of shareholders of LPR Canada. Holders of Class B common shares do not have any voting rights. The Class C common shareholder is entitled to 75 million votes per share.

The Preferred Shares are non-voting except in certain limited circumstances. Preferred shareholders have the right to receive dividends if, as and when declared by the Board of Directors of LPR Canada. In addition, any dividend declared on the LPR Canada common shares should be shared on a pari passu and pro rata basis among the common shareholders and the preferred shareholders.

(b) Issued

(000s of units)	Number of Shares
Lone Pine Resources Common Shares	
Balance at January 1, 2014	86,860
Cancellation of common shares	(86,860)
Issuance of Class A Common Shares	24,986
Issuance of Class B Multiple Voting Shares	75,000
Balance at December 31, 2014 and 2015	**99,986**

(000s of units)	Number of Shares
LPR Canada Common Shares	
Balance at January 1, 2014	2
Cancellation of common shares	(2)
Issuance of Class A Voting Common Shares	24,986
Issuance of Class C multiple voting common shares	—
Balance at December 31, 2014 and 2015	**24,986**

($000s)	Amount
Consolidated and Combined Common Share Capital	
Balance at January 1, 2014	747,340
Cancellation of common shares	(747,340)
Issuance of common shares	73,912
Balance at December 31, 2014 and 2015	**73,912**

On January 31, 2014, both Lone Pine Resources and LPR Canada issued common shares pursuant to the Plan (see Note 4). No cash proceeds were received upon issuance of these shares.

The LPR Canada Class B Shares are issuable on conversion of the Preferred Shares. For the years ended December 31, 2015 and December 31, 2014, no such conversion has occurred. As such, there were no LPR Canada Class B Shares outstanding (see Note 8). There were no cancellations or issuance of common shares after January 31, 2014.

11. SHARE-BASED COMPENSATION

Effective April 23, 2014, the shareholders of the Company approved the adoption of the EIP which authorizes the Board of Directors to grant certain equity-based awards. On June 20, 2014, the Board granted RSU awards to the Company's directors, officers and employees.

The RSUs granted vest in equal installments on January 31 of the next 2 years for the directors and the next 3 years for the rest of the participants. Vested RSUs are to be settled in shares for no cash consideration in the following manner:

- for director RSUs: 75% with Preferred Shares and 25% with LPR Canada common shares; and
- for officer and employee RSUs: 80% with Preferred Shares and 20% with LPR Canada common shares.

The RSU holder has no rights as a shareholder of the Company. Vested RSUs will only be settled and redeemed upon a corporate change that (i) directly or indirectly ascribes a value to the shares and (ii) provides liquidity to the holders of shares. A corporate change is defined in the EIP, which generally includes events that result in a change of control, sale of all or substantially all of the Company's assets or liquidation of the Company. As at December 31, 2015 and 2014, none of the RSUs were exercisable.

The number of RSUs outstanding for the years ended December 31, 2014 and December 31, 2015 is as follows:

	Directors	Officer and Employees	Total
Granted in 2014	271,967	2,000,613	2,272,580
Cancellations – terminations	—	(410,694)	(410,694)
Balance at December 31, 2014	271,967	1,589,919	1,861,886
Cancellations – terminations	—	(11,791)	(11,791)
Balance at December 31, 2015	271,967	1,578,128	1,850,095
Weighted average fair value per RSU at grant date	$2.13	$2.07	$2.08

The fair value of each RSU award was determined using the estimated fair value of the underlying preferred and common shares at grant date. As RSU holders have no rights as a shareholder, no expected dividends were incorporated into the fair value measurement of the awards.

For the year ended December 31, 2015, share-based compensation of $1.0 million (December 31, 2014 - $1.9 million) was included in general and administrative expense net of a nominal amount of capitalized share based compensation (December 31, 2014 - $0.4 million). In addition, $0.2 million (December 31, 2014 - $0.3 million) was included in reorganization costs for accelerated vesting of units related to terminations. A nominal amount was included in operating expense in 2015 and 2014.

12. INCOME TAX

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to income before income tax expense as follows:

Years ended *($000s)*	December 31, 2015	December 31, 2014
Net loss before taxes	(59,836)	(73,395)
Statutory income tax rate	25.96%	25.05%
Expected income tax recovery	(15,535)	(18,385)
Add (deduct):		
Debt forgiveness	—	3,507
Intercompany gain on debt cancellation	—	2,154
Accretion and foreign exchange on preferred shares	10,282	3,825
Change in unrecognized deferred tax asset	13,212	8,197
Provincial tax rate increase	(7,882)	—
Non-deductible share-based compensation	327	553
Other	(346)	149
Current income tax expense	58	—

The movement in deferred tax balances during the year ended December 31, 2015 is as follows:

($000s)	Balance January 1, 2015	**Recognized in Net Loss**	**Balance December 31, 2015**
Deferred tax liabilities:			
Unrealized gains of financial instruments	(5,083)	**1,452**	**(3,631)**
Total deferred tax liabilities	(5,083)	**1,452**	**(3,631)**
Deferred tax assets:			
E&E and property and equipment	22,435	**(18,308)**	**4,127**
Decommissioning liabilities	14,611	**4,425**	**19,036**
Net operating loss carry forwards	1,917	**369**	**2,286**
Financing and restructuring fees	2,930	**(450)**	**2,480**
Non-capital losses	53,933	**10,176**	**64,109**
Accruals and other items, net	392	**158**	**550**
Total deferred tax assets	96,218	**3,630**	**92,588**
Net deferred tax assets	91,135	**(2,178)**	**88,957**
Less: Unrecognized deferred tax assets	(91,135)	**2,178**	**(88,957)**
Deferred taxes	—	**—**	**—**

The movement in deferred tax balances during the year ended December 31, 2014 is as follows:

($000s)	Balance January 1, 2014	Recognized in Net Loss	Balance December 31, 2014
Deferred tax liabilities:			
Unrealized gains of financial instruments	—	(5,083)	(5,083)
Other items, net	(83)	83	—
Total deferred tax liabilities	(83)	(5,000)	(5,083)
Deferred tax assets:			
E&E and property and equipment	45,578	(23,143)	22,435
Decommissioning liabilities	14,259	352	14,611
Net operating loss carry forwards	1,675	242	1,917
Financing and restructuring fees	3,353	(423)	2,930
Deferred loss on commodity contract	818	(818)	—
Unrealized translation losses	756	(756)	—
Non-capital losses	—	53,933	53,933
Accruals and other items, net	2,303	(1,911)	392
Total deferred tax assets	68,742	27,476	96,218
Net deferred tax assets	68,659	22,476	91,135
Less: Unrecognized deferred tax assets	(68,659)	(22,476)	(91,135)
Deferred taxes	—	—	—

At December 31, 2015, the Company had $141.2 million (December 31, 2014 – $215.5 million) of federal tax pools in Canada related to the exploration, development and production of oil and gas available for deduction against future Canadian taxable income. In addition, the Company had Canadian tax loss carry-forwards in the amount of $237.4 million (December 31, 2014 – $215.3 million), scheduled to expire in the years 2033 to 2035.

In 2015, the Canada Revenue Agency ("CRA") conducted an audit and issued a proposal letter regarding the income tax treatment of compromised debt pertaining to the CCAA, as well as certain historic tax pools. The CRA proposed $126.7 million of potential adjustments to Lone Pine's tax pools, of which the Company has reflected a decrease in the Canadian development tax pool of $57.0 million as at December 31, 2015. The Company disagrees with the CRA's position on the remaining issues and believes its positions on the remaining $69.7 million of tax pools are supportable under applicable law, and as such, has not adjusted its December 31, 2015 tax pools accordingly.

As of December 31, 2015 and December 31, 2014, the Company did not recognize any deferred tax assets in the combined and consolidated statements of financial position for deductible temporary differences and unused tax losses as there was insufficient evidence to indicate that it was probable that future taxable profits in excess of profits arising from the reversal of existing temporary difference would be generated to utilize the existing deferred tax assts.

Current tax expense of $58 thousand recognized in the year ended December 31, 2015 relates to US federal income tax incurred by the Company's US entity, Lone Pine Resources.

13. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

Changes in non-cash working capital and interest paid are summarized:

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Source (use) of cash:		
Accounts receivable	**487**	3,250
Prepaid expenses and other current assets	**213**	6,954
Accounts payable and accrued liabilities	**(1,370)**	(18,627)
Accounts payable – compromised and settled for equity	**—**	2,037
	(670)	(6,386)
Related to operating activities	**(2,348)**	236
Related to investing activities	**1,678**	(6,622)
	(670)	(6,386)
Other:		
Interest paid during the year	**630**	6,223

14. GAIN ON EXTINGUISHMENTS OF FINANCIAL LIABILITIES – NET

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Gain on extinguishment of the Senior Notes (see Notes 4)	**—**	(109,743)
Gain on compromised accounts payable (see Note 4)	**—**	(1,346)
Loss on extinguishment of Term Facility (see Note 7(b))	**—**	6,141
	—	(104,948)

15. OPERATING EXPENSE

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Lease operating expense	**12,924**	26,386
Transportation and processing	**1,147**	7,429
Production and property taxes	**1,888**	1,972
Total operating expense	**15,959**	35,787

16. GENERAL AND ADMINISTRATIVE COSTS

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Salaries and benefits	**5,346**	7,053
Share-based compensation	**1,073**	1,856
Office rents and leases	**1,600**	1,558
Professional fees	**3,231**	2,943
Other – office and administration	**2,011**	2,468
	13,261	15,887
Amounts capitalized to property and equipment and E&E assets (Notes 5 & 6)	**(831)**	(4,330)
General and administrative expense	**12,430**	11,557

17. FINANCE COST

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Interest expense	**828**	4,863
Accretion – preferred shares (Note 8)	**13,966**	10,119
Accretion – decommissioning liability (Note 9)	**1,351**	1,581
Finance cost	**16,145**	16,563

18. REORGANIZATION COST

Years Ended *($000s)*	**December 31, 2015**	December 31, 2014
Employee termination cost	**1,126**	2,502
Share-based compensation – accelerated vesting	**176**	308
Professional fees	**113**	7,264
Employee retention bonus program	**—**	548
DIP Credit Facility costs	**—**	180
Amortization and other costs	**—**	246
Reorganization cost	**1,415**	11,048

Reorganization costs are non-recurring costs related to corporate restructuring activities. The reorganization costs incurred in 2014 mainly related to the Company's Creditor Protection Proceedings and other corporate restructuring activities primarily as a result of the Deep Basin CGU divestiture. In 2015, the costs related mainly to staff reduction.

19. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

Financial instruments of Lone Pine consist of cash and cash equivalents, accounts receivable, accounts payable, borrowings under its credit facilities, derivative contracts and Preferred Shares and the conversion liability.

Cash and cash equivalents, derivative contracts and the conversion option within the Preferred Shares are classified as held for trading. The Preferred Shares conversion option is linked to and must be settled by delivery of LPR Canada common shares, which do not have quoted market prices in an active market and therefore cannot be reliably measured. Accounts receivable are classified as loans and receivables. The remaining instruments are considered other financial liabilities.

(a) Fair Value

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts due to their short-term maturities. The fair value of the borrowings under Lone Pine's credit facilities approximates the carrying value (excluding deferred financing charges) as they bear floating market rates. The fair value of Preferred Shares as at December 31, 2015 is $127.3 million (2014 – $126.6 million) compared to the carrying value of $166.2 million (2014 – $126.6 million). The Company determined the fair value of the Preferred Shares by discounting future cash flows at market yields of corporate bonds of comparable credit characteristics and maturity and is therefore considered as level 3 under the fair value hierarchy (see Note 3(f)).

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation process and results are reviewed and approved by management at least once every quarter, in line with the Company's quarterly reporting dates.

Cash and cash equivalents and derivative instruments are measured and recorded on Lone Pine's statement of financial position at fair value through profit and loss. Cash and cash equivalents and risk management contracts have been assessed on the fair value hierarchy described in Note 3(f). Cash is classified as Level 1, while cash equivalents and derivative contracts are classified as Level 2. During the years ended December 31, 2015 and 2014, there were no transfers among Levels 1, 2 and 3.

Derivatives are valued using valuation techniques with observable market inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations and third-party option valuation models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, and forward rate curves and volatilities of the underlying commodity. The fair values of the risk management contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk.

(b) Risk Management

The Company's activities expose it to a variety of financial risks that arise as result of its exploration, development production and financing activities such as:

- Credit risk;
- Liquidity risk; and
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented, and monitors compliance with, risk management policies. The

Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and natural gas marketers.

Cash and Cash Equivalents

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of December 31, 2015, the cash and cash equivalents amount included $9.0 million (December 31, 2014 – $8.0 million) of one-month guaranteed investment certificates.

Accounts Receivable

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All of the Company's petroleum and natural gas production is marketed under standard industry terms. Accounts receivable from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a number of large purchasers. The Company historically has not experienced any collection issues with its oil and natural gas marketers.

Receivable from joint operators are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining the partners' pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint operators as disagreements occasionally arise that may increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint operators; however, the Company can withhold its production from joint operators in the event of non-payment.

As at December 31, the maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

($000s)	**2015**	2014
Oil and natural gas marketing companies	**2,625**	3,414
Joint operators	**1,238**	1,464
Government agencies	**485**	—
Counterparties – derivative instruments	**1,873**	1,979
Other	**361**	212
Total accounts receivable	**6,582**	7,069

As at December 31, the Company's accounts receivable are aged as follows:

($000s)	**2015**	2014
Current (less than 90 days)	**6,141**	6,626
Past due (more than 90 days)	**441**	443
Total	**6,582**	7,069

Lone Pine's allowance for doubtful accounts was $0.3 million as at December 31, 2015 (December 31, 2014 – $0.6 million). When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount.

Derivatives

Lone Pine executes with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. As of December 31, 2015, all of the derivative counterparties are lenders under the Amended Credit Facility, which provides that any security granted under the credit facility shall also extend to and be available to those lenders that are counterparties to derivative transactions with Lone Pine. None of these counterparties require collateral beyond that already pledged under the credit facility. Lone Pine's derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Lone Pine does not require the posting of collateral for its benefit under its derivative agreements. However, Lone Pine's ISDA Master Agreements generally contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions generally apply to all derivative transactions, or all derivative transactions of the same type (e.g., commodity, interest rate, etc.), with the particular counterparty.

The following is a summary of Lone Pine's financial assets and financial liabilities that were subject to offsetting as at December 31, 2015 and 2014. The net asset amounts represented the maximum exposure to credit risks for derivative instruments at each applicable reporting date:

December 31, 2015 *($000s)*	**Gross Assets (Liabilities)**	**Amounts Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments assets	**16,758**	**(7,227)**	**9,531**
Derivative instruments liabilities	**(7,227)**	**7,227**	**—**
Long-term:			
Derivative instruments assets – long-term	**5,121**	**(1,203)**	**3,918**
Derivative instruments liabilities – long-term	**(1,203)**	**1,203**	**—**

December 31, 2014 *($000s)*	Gross Assets (Liabilities)	Amounts Offset Gross Assets (Liabilities)	Net Amount Presented
Derivative instruments assets – long-term	10,049	(4,400)	5,649
Derivative instruments liabilities – long-term	(4,400)	4,400	—

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, committed credit capacity along with its planned capital expenditure program. As outlined in Note 7(a), the Company has $50.0 million borrowing capacity under the Amended Credit Facility, of which $4.5 million was utilized as at December 31, 2015 by the issuance of letters of credit. The Company has determined that its current financial obligations are adequately funded from the available borrowing capacity and from working capital derived from operations. Except for the redemption features of the Preferred Shares detailed in Note 8, all of the Company's financial liabilities are due within one year.

(iii) Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Company may use financial derivative contracts to manage market risks as disclosed below. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Currency Risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars.

In addition, Lone Pine Preferred Shares are denominated in U.S. dollars. If the U.S. dollar strengthened (weakened) by $0.05 relative to the Canadian dollar, pre-tax income would be lower (higher) by $6.0 million due to the translation of the Preferred Shares held at December 31, 2015.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Amended Credit Facility fluctuates with the interest rates posted by the lenders. The Company will be exposed to interest rate risk when borrowings are drawn under the Amended Credit Facility.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

Lone Pine enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following table summarizes commodity derivative transactions as at December 31, 2015:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	750 bbls/d	January 1, 2016 – December 31, 2016	CDN$ WTI	$ 91.19	Swap
Light oil differential	1,000 bbls/d	January 1, 2016 – December 31, 2016	CDN$ MSW(1)	$ -5.35	Swap
Oil	250 bbls/d	January 1, 2016 – December 31, 2017	CDN$ WTI	$ 65.00/ 75.00	Collar
Oil	500 bbls/d	January 1, 2017 – December 31, 2017	CDN$ WTI	$ 87.78	Swap
Oil	382 bbls/d	January 1, 2017 – December 31, 2017	CDN$ WTI	$ 93.50	Call Option
Oil	500 bbls/d	January 1, 2018 – December 31, 2018	USD$ WTI	$ 65.00	Call Option

(1) Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI

Subsequent to December 31, 2015, the Company has entered into the following derivative contracts:

Commodity Contract	Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Natural gas	2,500 GJ/d	February 1, 2016 – December 31, 2016	AECO 7A Monthly Index	$ 2.50	Swap

The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

December 31, 2015	**Crude Oil**
($000s)	
Derivative instruments – current asset	**9,531**
Derivative instruments – long-term asset	**3,918**
Total	**13,449**

December 31, 2014	Crude Oil
($000s)	
Derivative instruments – current asset	14,643
Derivative instruments – long-term asset	5,649
Total	20,292

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type in the fiscal years 2015 and 2014:

Year ended December 31, 2015	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Unrealized loss on derivative instruments	**(6,843)**	**—**	**(6,843)**
Realized gain on derivative instruments	**16,785**	**—**	**16,785**
Total gain	**9,942**	**—**	**9,942**

Year ended December 31, 2014	Crude Oil	Natural Gas	Total
($000s)			
Unrealized gain on derivative instruments	20,292	—	20,292
Realized gain (loss) on derivative instruments	925	(7,644)	(6,719)
Total gain (loss)	21,217	(7,644)	13,573

An increase of Canadian dollar WTI by $1.00 per bbl from the expected forward prices as at December 31, 2015 would result in a decrease in the unrealized gain on derivative instruments of approximately $0.6 million, assuming all other variables, including the Canadian/United States dollar exchange rate, remain constant.

(c) Capital Management

Lone Pine's objectives when managing capital is to maintain a flexible capital structure in order to meet its financial obligations and allow it to execute on its planned capital expenditure program. The Company considers its capital structure to include shareholders' equity, Amended Credit Facility, Preferred Shares and working capital. Lone Pine aims to manage the capital structure of the Company to provide a strong financial position that is capable of funding the future growth of the Company. Lone Pine monitors the current and forecasted capital structure and makes adjustments on an ongoing basis in order to maintain the liquidity needed to satisfy the funding requirements of the Company. Modifications to the capital structure of the Company can be accomplished through issuing new preferred or common shares, issuing new debt or replacing existing debt, adjusting capital spending and acquiring or disposing of assets.

The Company monitors its capital structure based on the ratio of debt to trailing twelve months EBITDAX. Total debt to EBITDAX provides a measure of the Company's ability to manage its debt levels under current operating conditions. The ratio is calculated as total debt from the Amended Credit Facility divided by EBITDAX for the most recent four consecutive fiscal quarters.

The Company's goal is to manage this ratio within the financial covenants imposed on it under the Amended Credit Facility and to target for this ratio at a forecasted level of less than 2.0:1. As at December 31, 2015, if calculated on an annualized quarter to date basis, the Company's ratio of total debt to EBITDAX was in compliance with the covenants under the Amended Credit Facility.

20. KEY MANAGEMENT COMPENSATION

The aggregate payroll expense of directors and executive management is summarized as follows:

Years ended *($000s)*	**December 31, 2015**	December 31, 2014
Salary, bonus and fees	**2,124**	3,485
Termination payments	**747**	1,100
Share based compensation	**820**	1,418
Share based compensation – terminations	**174**	185
Total remuneration	**3,865**	6,188

Share based compensation included in key management compensation is non-cash compensation.

21. RELATED PARTIES

During 2015 and 2014, Lone Pine did not have any related party transactions other than the ones executed under the Plan (see Note 4).

22. COMMITMENTS AND CONTINGENCIES

(a) Capital Commitments

(i) Lease Acquisition Capital Commitment

On June 30, 2015, LPR Canada entered into a lease acquisition agreement for mineral leases covering approximately 69,000 net acres of undeveloped lands in the Wheatland area in southeast Alberta. The mineral leases generally have a primary term of three years, with a three-year extension option. In exchange for the leases, LPR Canada paid $9.3 million of cash consideration. Future production from these leases will be subject to a flat-rate royalty at 17.5%. Pursuant to the lease acquisition agreement, LPR Canada is committed to the following annual capital expenditures:

Commitment Period Ending	Capital Commitment
($000s)	
July 1, 2016	10,000
July 1, 2017	15,000
July 1, 2018	20,000

LPR Canada has the flexibility to decide the locations and the number of wells to be drilled. In the event that LPR Canada does not incur the minimum capital expenditures by the end of a given commitment period, the shortfall will be payable to the vendor. If the amount of capital expenditures incurred for any commitment period exceeds the minimal amount, such excess will be applied to satisfy capital commitment in the subsequent commitment period. During the first two years of the leases, if the average West Texas Intermediate prices for a calendar quarter are below US$50 per barrel, LPR Canada may defer a portion of the drilling commitment from that commitment period to be allocated over the remaining term.

On or before July 1, 2017, if LPR Canada fails to drill or to elect to drill one well in a specific formation on certain lands (“Specific Formation”), LPR Canada will be required to surrender the leases pertaining to the Specific Formation immediately. In the event that the Company made the election but does not drill by July 1, 2018, $250,000 will be payable to the vendor.

As at December 31, 2015, the Company has incurred $7.7 million related to the lease acquisition capital commitment.

(ii) Farm-in Arrangement Capital Commitment

Effective December 8, 2015, Lone Pine entered into a farm-in and option agreement ("Farm-In Arrangement") to farm-in certain lands in the Wheatland area ("Farm-In Lands"). The key terms of the Farm-In Arrangement are as follows:

- Prior to December 31, 2016, a minimum of $20 million of drilling and completion expenditures must be incurred on the Farm-In Lands ("Gross Capital Commitment").
- Dependent on the farmor's participation level (as discussed below), Lone Pine's share of the Gross Capital Commitment may be between 50% and 100%.
- Between the effective date of the Farm-In Arrangement and December 31, 2016:
  - On half of any given section of the Farm-In Lands, Lone Pine may drill a test well ("Earning Well") in a targeted formation ("Initial Earned Land");
  - In exchange, Lone Pine will earn up to a maximum of 95% of working interest in the Initial Earned Land;
  - The farmor may participate up to a 50% of working interest in each Earning Well and share the capital expenditures accordingly; and
  - If the farmor participates in an Earning Well, Lone Pine will be required to pay a land bonus of no more than $0.1 million for each Initial Earned Land, prorated based on Lone Pine's working interest.
- In addition, Lone Pine may earn additional lands as follows:
  - For each Earning Well drilled, Lone Pine will also earn the right to drill an additional well (the "Option Well") in the same geological formation in the offsetting half section ("Offsetting Land") of the Initial Earned Land;
  - All Option Wells must be drilled prior to December 31, 2017;
  - The farmor may participate in drilling each Option Well to a maximum of 50% working interest. Its participation level will vary based on its working interest in the corresponding Earning Well; and
  - Lone Pine may earn up to 100% of working interest in the Offsetting Land.
- The Gross Capital Commitment may be met by drilling Earning Wells alone, or a combination of Earning Wells and Option Wells.

As at December 31, 2015, the Company has incurred $2.3 million related to the Farm-in Arrangement capital commitment.

(b) Other commitments

The Company has non-cancellable contractual obligations at December 31, 2015 are summarized as follows:

	2016	2017	2018	2019	2020	Thereafter	Total
Operating Leases – net	1,546	1,628	2,446	2,519	2,519	2,729	13,387
Firm transportation agreements	222	191	76	23	—	—	512
Other agreements	437	434	51	54	57	641	1,674
Total	2,205	2,253	2,573	2,596	2,576	3,370	15,573

Included in operating leases – net are sublease recoveries in amount of $1.8 million over the contractual period into 2018.

In addition, as outlined in Note 9, the Company has estimated decommissioning liabilities on its interests in wells and facilities in the total amount of $111.8 million on an undiscounted basis, of which, $17.1 million is estimated to be incurred over the next five years.

(c) Contingencies

Lone Pine is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on the Company's results of operations or cash flows.

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.