Lone Pine Resources Inc.
Lone Pine Resources Canada Ltd.

Condensed Interim Combined and Consolidated Financial Statements (Unaudited)

As at and for the Three Months Ended March 31, 2016

Dated: May 25, 2016

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	**March 31, 2016**	December 31, 2015
ASSETS			
Cash and cash equivalents	17	**4,175**	13,021
Accounts receivable		**5,092**	6,582
Inventory		**334**	471
Prepaid expenses and other assets		**1,044**	1,139
Derivative instruments – current	17	**10,371**	9,531
Total current assets		**21,016**	30,744
Exploration and evaluation	4	**53,360**	48,314
Property and equipment	5	**116,725**	115,272
Derivative instruments	17	**3,930**	3,918
Other assets		**511**	657
Total assets		**195,542**	198,905
LIABILITIES			
Accounts payable and accrued liabilities		**11,304**	8,945
Current portion of decommissioning liability	9	**3,500**	3,500
Total current liabilities		**14,804**	12,445
Preferred shares	8	**159,522**	166,171
Preferred shares – conversion liability		**26,450**	26,450
Decommissioning liabilities	9	**64,639**	67,002
Other liabilities		**897**	899
Total Liabilities		**266,312**	272,967
SHAREHOLDER'S' DEFICIT			
Share capital	10	**73,912**	73,912
Contributed surplus		**1,024,718**	1,024,623
Accumulated deficit		**(1,169,687)**	(1,172,884)
Accumulated other comprehensive income		**287**	287
Total Deficit		**(70,770)**	(74,062)
Total liabilities and shareholders' deficit		**195,542**	198,905

See accompanying notes to the condensed interim combined and consolidated financial statements.

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) (UNAUDITED)

Three Months Ended *($000s)*	Note	**March 31, 2016**	March 31, 2015
REVENUE			
Oil and natural gas revenue		**7,203**	9,770
Royalties		**(649)**	(546)
Oil and natural gas revenue, net of royalties		**6,554**	9,224
Unrealized gain (loss) on derivative instruments	17	**852**	(3,581)
Realized gain on derivative instruments	17	**3,585**	4,380
		10,991	10,023
EXPENSES			
Operating	13	**6,430**	4,845
General and administrative	14	**2,704**	3,627
Depletion and depreciation	5	**4,658**	6,081
Exploration and evaluation	4	**26**	102
Impairment (recovery) loss	6	**(125)**	1,236
(Gain) loss on foreign exchange	8	**(10,648)**	11,882
Finance costs	15	**4,473**	3,830
Reorganization	16	**276**	10
Total expenses – net		**7,794**	31,613
Net earnings (loss) and comprehensive earnings (loss)		**3,197**	(21,590)

See accompanying notes to the condensed interim combined and consolidated financial statements.

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (UNAUDITED)

($000s)	Note	Share Capital Amount	Capital Surplus	Accumulated Deficit	Accumulated other Comprehensive Income	Total Deficit
Balance at December 31, 2015		73,912	1,024,623	(1,172,884)	287	(74,062)
Share-based compensation	11	—	95	—	—	95
Net earnings		—	—	3,197	—	3,197
Balance at March 31, 2016		73,912	1,024,718	(1,169,687)	287	(70,770)

($000s)	Note	Share Capital Amount	Capital Surplus	Accumulated Deficit	Accumulated other Comprehensive Income	Total Deficit
Balance at December 31, 2014		73,912	1,023,364	(1,112,990)	287	(15,427)
Share-based compensation	11	—	408	—	—	408
Net loss		—	—	(21,590)	—	(21,509)
Balance at March 31, 2015		73,912	1,023,772	(1,134,580)	287	36,609

See accompanying notes to the condensed interim combined and consolidated financial statements.

CONDENSED COMBINED AND CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended *($000s)*	Note	**March 31, 2016**	March 31, 2015
OPERATING ACTIVITIES			
Net earnings (loss)		**3,197**	(21,590)
Adjustments for non-cash items:			
Unrealized foreign exchange (gain) loss	8	**(10,575)**	11,880
Unrealized (gain) loss on derivative instruments	17	**(852)**	3,581
Depletion and depreciation	5	**4,658**	6,081
Accretion and financing charges	9, 15	**4,295**	3,579
Impairment loss	6	**(125)**	1,236
Share-based compensation	11	**92**	408
Amortization of deferred cost		**98**	150
Exploration and evaluation expense	4	**26**	102
Settlements of decommissioning liabilities	9	**(2,987)**	(626)
Other, net		**(25)**	176
Change in non-cash working capital	12	**2,724**	(767)
Net cash from operating activities		**526**	4,210
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	4	**(7,188)**	(97)
Property and equipment expenditures	5	**(3,541)**	(1,203)
Change in non-cash working capital	12	**1,357**	450
Net cash used in investing activities		**(9,372)**	(850)
Change in cash and cash equivalents		**(8,846)**	3,360
Cash and cash equivalents beginning of period		**13,021**	15,258
Cash and cash equivalents end of period		**4,175**	18,618

See accompanying notes to condensed interim combined and consolidated financial statements.

NOTES TO THE CONDENSED INTERIM COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2016 and 2015

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 condensed interim combined and consolidated financial statements (the "Interim 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 of Alberta, British Columbia and Quebec, and in the Northwest Territories. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these Interim 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 Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*.

The condensed interim combined and consolidated financial statements ("Interim Financial Statements") should be read in conjunction with the audited annual combined and consolidated financial statements of Lone Pine as at and for the year ended December 31, 2015 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

The Interim Financial Statements were approved and authorized for issue by the Audit and Reserves Committee of the Board of Directors of Lone Pine on May 25, 2016.

(b) Basis of Measurement

The Interim Financial Statements have been prepared on the historical cost basis except that derivative financial instruments are measured at fair value.

(c) Functional and Presentation Currency

The Interim Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgements

The preparation of financial statements in conformity with International Financial Reporting Standards ("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 year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are outlined in the Annual Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

The Company is currently evaluating the impact of new standards and updates on its financial statements as outlined in the Annual Financial Statements.

4. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2015	77,384
Additions	**7,525**
Transfers to oil and gas property and equipment (Note 5)	**(2,453)**
Exploration and evaluation expense	**(26)**
Cost Balance – March 31, 2016	**82,430**
Provision for impairment – December 31, 2015 and March 31, 2016	**(29,070)**
Net book value – December 31, 2015	48,314
Net book value – March 31, 2016	**53,360**

5. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance – December 31, 2015	350,735	3,833	354,568
Additions – property and equipment	**3,456**	**90**	**3,546**
Transfers from exploration and evaluation assets (Note 4)	**2,453**	**—**	**2,453**
Balance – March 31, 2016	**356,644**	**3,923**	**360,567**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2015	(237,149)	(2,147)	(239,296)
Depletion and depreciation	**(4,412)**	**(134)**	**(4,546)**
Balance – March 31, 2016	**(241,561)**	**(2,281)**	**(243,842)**
Net book value – December 31, 2015	113,586	1,686	115,272
Net book value – March 31, 2016	**115,083**	**1,642**	**116,725**

6. IMPAIRMENT

The impairment recovery of $0.1 million recorded in the three months ended March 31, 2016 is the result of an increase in the net realizable value of inventory.

As at March 31, 2016, the Company assessed exploration and evaluation assets and property and equipment for indicators of impairment. Based on the assessment, no indicators of impairment were noted.

In the first quarter of 2015 a $1.2 million impairment loss was recognized for changes in estimated decommissioning liabilities of certain properties with a carrying value of nil.

7. LONG-TERM DEBT

As at both March 31, 2016 and December 31, 2015, Lone Pine had no outstanding long-term debt. Under the Company's credit facility, $5.2 million of letters of credit have been issued as at March 31, 2016 (December 31, 2015 - $4.5 million).

On July 31, 2015, the Company renewed and amended its 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. 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 March 31, 2016, the Company was in compliance with all covenants under the Amended Credit Facility.

Subsequent to March 31, 2016, the term-out date and borrowing base redetermination were extended from May 31, 2016 to June 17, 2016. The maturity date of the Amended Credit Facility remains unchanged at May 31, 2017.

8. LPR CANADA PREFERRED SHARES

At March 31, 2016, the preferred shares liability was $159.5 million (December 31, 2015 – $166.2 million). During the three months ended March 31, 2016, $10.7 million of unrealized gains on foreign exchange (March 31, 2015 – $11.9 million unrealized loss) was recognized related to the translation of the US dollar denominated preferred shares at prevailing rates.

9. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2015	70,502
Liabilities incurred	**335**
Payments	**(2,987)**
Accretion	**289**
Total Balance – March 31, 2016	**68,139**
Comprised of:	
Current portion – March 31, 2016	**3,500**
Long-term portion – March 31, 2016	**64,639**
Current portion – December 31, 2015	3,500
Long-term portion – December 31, 2015	67,002

The Company has estimated the undiscounted total future liabilities to be approximately $109.4 million (December 31, 2015 – $111.8 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 25 years.

Decommissioning liabilities at March 31, 2016 were determined using risk-free rates of 0.7% – 2.2% (December 31, 2015 – 0.7% - 2.2%) and an inflation rate of 1.7% (December 31, 2015 – 1.7%).

10. SHARE CAPITAL SHARE CAPITAL

(a) Units Outstanding

(000s of units)	**Number of Shares**
Lone Pine Resources Common Shares	
Class A Common Shares	**24,986**
Class B Multiple Voting Shares	**75,000**
Balance at December 31, 2015 and March 31, 2016	**99,986**

(000s of units)	**Number of Shares**
LPR Canada Common Shares	
Class A Voting Common Shares	**24,986**
Class C multiple voting common shares	**—**
Balance at December 31, 2015 and March 31, 2016	**24,986**

(b) Consolidated and Combined Common Share Capital

($000s)	
Balance at December 31, 2015 and March 31, 2016	**73,912**

11. SHARE-BASED COMPENSATION

During the three months ended March 31, 2016, Lone Pine did not issue any share-based incentive awards. Outstanding restricted shares units (RSUs) were issued in 2014. 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 equity incentive plan, 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 March 31, 2016 and December 31, 2015, none of the RSUs outstanding were exercisable.

The number of RSUs outstanding is as follows:

	Directors	Officer and Employees	Total
Outstanding – December 31, 2015	271,967	1,578,128	1,850,095
Cancellations – terminations	—	(13,291)	(13,291)
Outstanding – March 31, 2016	**271,967**	**1,564,837**	**1,836,804**
Weighted average fair value per RSU at grant date:	**$2.13**	**$2.07**	**$2.08**

For the three months ended March 31, 2016, share-based compensation of $0.1 million was included in general and administrative expense net of a nominal amount of capitalized share based compensation (March 31, 2015 – $0.4 million). A nominal amount of share-based compensation was included in operating expense for the three months ended March 31, 2016 and March 31, 2015.

12. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

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

Three Months Ended *($000s)*	March 31, 2016	March 31, 2015
Source (use) of cash:		
Accounts receivable	**1,490**	244
Prepaid expenses and other current assets	**232**	(48)
Accounts payable and accrued liabilities	**2,359**	(513)
	4,081	(317)
Related to operating activities	**2,724**	(767)
Related to investing activities	**1,357**	450
	4,081	(317)
Other:		
Interest paid during the period	**134**	166

13. OPERATING EXPENSE

Three Months Ended *($000s)*	March 31, 2016	March 31, 2015
Lease operating expense	**4,874**	3,829
Transportation and processing	**1,120**	374
Production and property taxes	**436**	642
	6,430	4,845

14. GENERAL AND ADMINISTRATIVE EXPENSE

Three Months Ended *($000s)*	**March 31, 2016**	March 31, 2015
Salaries and benefits	**1,489**	1,435
Share-based compensation	**94**	403
Office rents and leases	**344**	400
Professional fees	**615**	1,083
Other – office and administration	**539**	374
	3,081	3,695
Amounts capitalized to property and equipment and exploration and evaluation assets	**(377)**	(68)
	2,704	3,627

15. FINANCE COST

Three Months Ended *($000s)*	**March 31, 2016**	March 31, 2015
Interest expense	**178**	251
Accretion – preferred shares	**4,006**	3,262
Accretion – decommissioning liabilities (Note 9)	**289**	317
	4,473	3,830

16. REORGANIZATION EXPENSE

Three Months Ended *($000s)*	**March 31, 2016**	March 31, 2015
Employee termination cost	**266**	—
Professional fees	**10**	10
	276	10

Reorganization expenses are non-recurring costs related to corporate restructuring activities.

17. 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, preferred shares and the conversion liability related to the preferred shares.

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.

As of March 31, 2016, the cash and cash equivalents included $nil (December 31, 2015 – $9.0 million) one-month guaranteed investment certificates.

(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 March 31, 2016 is $123.5 million (December 31, 2015 – $127.3 million) compared to the carrying value of $159.5 million (December 31, 2015 – $166.2 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 (the fair value hierarchy is described in Note 3(f) of the Annual financial statements).

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. Cash is classified as Level 1, while cash equivalents and derivative contracts are classified as Level 2. During the three months ended March 31, 2016, there were no transfers among Levels 1, 2 and 3.

Derivatives 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 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 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

(i) 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, the Company has $50 million borrowing capacity under the Amended Credit Facility, of which $5.2 million was utilized as at March 31, 2016 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 of the Annual Financial Statements, all of the Company's financial liabilities are due within one year.

(ii) Commodity Price Risk

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 March 31, 2016:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	750 bbls/d	April 1, 2016 – December 31, 2016	CDN$ WTI	$ 91.19	Swap
Light Oil Differential	1,000 bbls/d	April 1, 2016 – December 31, 2016	CDN$ MSW(1)	$ -5.35	Swap
Natural Gas	2,500 GJ/d	April 1, 2016 – December 31, 2016	AECO 7A Monthly Index	$ 2.50	Swap
Oil	250 bbls/d	April 1, 2016 – December 31, 2016	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

Subsequent to March 31, 2016, the Company has entered into the following derivative contracts:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	350 bbls/d	June 1, 2016 – December 31, 2016	CDN$ WTI	$ 58.00/ 67.50	Collar
Light Oil Differential	500 bbls/d	January 1, 2017 – December 31, 2017	CDN$ MSW(1)	$ -5.90	Swap
Oil	500 bbls/d	January 1, 2017 – December 31, 2017	CDN$ WTI	$ 58.00/ 67.50	Collar
Oil	800 bbls/d	January 1, 2018 – December 31, 2018	CDN$ WTI	$ 58.00/ 67.50	Collar

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

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

March 31, 2016	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	9,765	606	10,371
Derivative instruments – long-term asset	3,930	—	3,930
Total assets	13,695	606	14,301

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

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2016 and 2015:

Three months ended March 31, 2016	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized gain on derivative instruments	**3,494**	**91**	**3,585**
Unrealized gain on derivative instruments	**246**	**606**	**852**
Total gains	**3,740**	**697**	**4,437**

Three months ended March 31, 2015	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	4,380	—	4,380
Unrealized loss on derivative instruments	(3,581)	—	(3,581)
Total gains	799	—	799

Financial assets and financial liabilities are only offset if Lone Pine has the current legal right to offset and intends to settle on a net basis. Lone Pine's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of Lone Pine's financial assets and financial liabilities that were subject to offsetting as at March 31, 2016 and December 31, 2015. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2016 *($000s)*	**Gross Assets (Liabilities)**	**Amount Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments assets	**16,083**	**(5,712)**	**10,371**
Derivative instruments liabilities	**(5,712)**	**5,712**	**—**
Long-term:			
Derivative instruments assets – long-term	**4,739**	**(809)**	**3,930**
Derivative instruments liabilities – long-term	**(809)**	**809**	**—**

December 31, 2015 *($000s)*	Gross Assets (Liabilities)	Amount 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	—