Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2016

Dated: November 8, 2016

# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

| *As at* <br> *($000s)* | Note | September 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 17 | — | 13,021 |
| Accounts receivable | | 6,772 | 6,582 |
| Inventory | | 432 | 471 |
| Prepaid expenses and other assets | | 816 | 1,139 |
| Derivative instruments – current | 17 | 3,465 | 9,531 |
| **Total current assets** | | 11,485 | 30,744 |
| Exploration and evaluation | 5 | 36,894 | 48,314 |
| Property and equipment | 6 | 186,930 | 115,272 |
| Derivative instruments | 17 | — | 3,918 |
| Other assets | | 405 | 657 |
| **Total assets** | | 235,714 | 198,905 |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | | 22,400 | 8,945 |
| Derivative instruments – current | 17 | 122 | — |
| Current portion of decommissioning liability | 9 | 3,500 | 3,500 |
| **Total current liabilities** | | 26,022 | 12,445 |
| Long-term debt | 7 | 2,131 | |
| Preferred shares | 8 | — | 166,171 |
| Preferred shares – conversion liability | 8 | — | 26,450 |
| Derivative instruments | 17 | 2,223 | — |
| Decommissioning liabilities | 9 | 93,970 | 67,002 |
| Other liabilities | | 4,229 | 899 |
| **Total Liabilities** | | 128,575 | 272,967 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 1,10 | 107,928 | 73,912 |
| Contributed surplus | 1 | 3,695 | 1,024,623 |
| Accumulated deficit | 1 | (4,484) | (1,172,884) |
| Accumulated other comprehensive income ("AOCI") | 1 | — | 287 |
| **Total Equity (deficit)** | | 107,139 | (74,062) |
| **Total liabilities and shareholders' equity** | | 235,714 | 198,905 |

See accompanying notes to the condensed interim consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

| *($000s)* | Note | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Oil and natural gas revenue | | **9,334** | 9,191 | **25,688** | 30,552 |
| Royalties | | **(1,050)** | (575) | **(2,623)** | (1,444) |
| Oil and natural gas revenue, net of royalties | | **8,284** | 8,616 | **23,065** | 29,108 |
| Unrealized gain (loss) on derivative instruments | 17 | **(1,936)** | 4,118 | **(12,043)** | (6,113) |
| Realized gain on derivative instruments | 17 | **2,257** | 4,421 | **8,381** | 11,864 |
| | | **8,605** | 17,155 | **19,403** | 34,859 |
| **EXPENSES** | | | | | |
| Operating | 13 | **5,757** | 4,090 | **17,213** | 12,225 |
| General and administrative | 14 | **2,938** | 3,180 | **8,092** | 10,174 |
| Depletion and depreciation | 6 | **4,234** | 5,523 | **13,935** | 17,647 |
| Exploration and evaluation | 5 | **15** | 24 | **49** | 166 |
| Loss on sale of property and equipment – net | | **—** | 3 | **73** | 198 |
| Impairment loss | 5,6 | **1,712** | 2,555 | **26,777** | 5,494 |
| Loss (gain) on foreign exchange | 8 | **417** | 10,617 | **(9,725)** | 20,211 |
| Finance costs | 15 | **3,614** | 4,142 | **12,438** | 11,927 |
| Reorganization | 16 | **—** | 6 | **392** | 1,321 |
| Transaction costs | 4 | **1,506** | — | **1,773** | — |
| Total expenses - net | | **20,193** | 30,140 | **71,017** | 79,363 |
| **Net loss and comprehensive loss** | | **(11,588)** | (12,985) | **(51,614)** | (44,504) |
| **Net loss per share** | | | | | |
| Basic and Diluted | 10 | **(0.12)** | (0.13) | **(0.53)** | (0.46) |

See accompanying notes to the condensed interim consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (UNAUDITED)

| *($000s)* | Note | Share Capital Amount | Capital Surplus | Accumulated Deficit | Accumulated other Comprehensive Income | Total Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | | 73,912 | 1,024,623 | (1,172,884) | 287 | (74,062) |
| Issued for the Business Combination | 1,4 | **38,735** | **—** | **—** | **—** | **38,735** |
| Issued in exchange of the Preferred Shares | 1,8 | **193,851** | **—** | **—** | **—** | **193,851** |
| Share-based compensation | 11 | **—** | **229** | **—** | **—** | **229** |
| Net loss | | **—** | **—** | **(51,614)** | **—** | **(51,614)** |
| Reduction of share capital | 1 | **(198,570)** | **(1,021,157)** | **1,220,014** | **(287)** | **—** |
| Balance at September 30, 2016 | | **107,928** | **3,695** | **(4,484)** | **—** | **107,139** |

| *($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 | — | 1,048 | — | — | 1,048 |
| Net loss | | — | — | (44,504) | — | (44,504) |
| Balance at September 30, 2015 | | 73,912 | 1,024,412 | (1,157,494) | 287 | (58,883) |

See accompanying notes to the condensed interim consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| *($000s)* | Note | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net loss | | **(11,588)** | (12,985) | **(51,614)** | (44,504) |
| Adjustments for non-cash items: | | | | | |
| Unrealized foreign exchange loss (gain) | 8 | **378** | 10,620 | **(9,693)** | 20,213 |
| Unrealized loss (gain) on derivative instruments | 17 | **1,936** | (4,118) | **12,043** | 6,113 |
| Depletion and depreciation | 6 | **4,234** | 5,523 | **13,935** | 17,647 |
| Accretion and financing charges | 15 | **3,476** | 3,975 | **11,938** | 11,268 |
| Impairment loss | 5,6 | **1,712** | 2,555 | **26,777** | 5,494 |
| Share-based compensation | 11 | **81** | 211 | **218** | 1,048 |
| Amortization of deferred costs | | **60** | 111 | **261** | 411 |
| Exploration and evaluation expense | 5 | **15** | 24 | **49** | 166 |
| Loss on sale of property and equipment | | **—** | 3 | **73** | 198 |
| Settlements of decommissioning liabilities | 9 | **(141)** | (122) | **(2,883)** | (933) |
| Other, net | | **(222)** | (306) | **(410)** | (570) |
| Change in non-cash working capital | 12 | **2,147** | 2,413 | **3,828** | (1,433) |
| Net cash from operating activities | | **2,088** | 7,904 | **4,522** | 15,118 |
| **FINANCING ACTIVITIES** | | | | | |
| Credit facility – net borrowings | | **2,586** | — | **2,586** | — |
| Long-term debt issuance costs | | **(92)** | (172) | **(163)** | (217) |
| Net cash (used in) from financing activities | | **2,494** | (172) | **2,423** | (217) |
| **INVESTING ACTIVITIES** | | | | | |
| Exploration and evaluation expenditures | 5 | **(10,282)** | (2,675) | **(18,155)** | (12,306) |
| Property and equipment expenditures | 6 | **(737)** | (974) | **(4,810)** | (2,662) |
| Proceeds on sale of property and equipment | | **—** | — | **20** | 150 |
| Cash acquired on the Business Combination | 1,4 | **249** | — | **249** | — |
| Change in non-cash working capital | 12 | **4,589** | 1,850 | **2,730** | 2,231 |
| Net cash used in investing activities | | **(6,181)** | (1,799) | **(19,966)** | (12,587) |
| Change in cash and cash equivalents | | **(1,599)** | 5,933 | **(13,021)** | 2,314 |
| Cash and cash equivalents beginning of period | | **1,599** | 11,639 | **13,021** | 15,258 |
| **Cash and cash equivalents end of period** | | **—** | 17,572 | **—** | 17,572 |

See accompanying notes to condensed interim consolidated financial statements.

### 1. REPORTING ENTITY

Prairie Provident Resources Inc. ("PPR" or the "Company") was incorporated under the laws of the province of Alberta on July 29, 2016. Its principal office is located at 640 – 5th Avenue S.W., Calgary, Alberta. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PPR".

PPR is an independent oil and natural gas exploration, development and production company. PPR's reserves, producing properties and exploration prospects are located primarily 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 condensed interim consolidated financial statements ("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.

On September 12, 2016, Lone Pine Resources Canada Ltd. ("LPR Canada"), Lone Pine Resources Inc. ("Lone Pine Resources", collectively with LPR Canada, "Lone Pine") and Arsenal Energy Inc. ("Arsenal") completed a business combination by way of a plan of arrangement (the "Arrangement" or the "Transaction") whereby the Arrangement brought together Lone Pine and Arsenal under a new parent corporation, PPR, of which Lone Pine and Arsenal became direct or indirect wholly-owned subsidiaries. Prior to the Arrangement, LPR Canada and Lone Pine Resources were under common control. The Arrangement involved the following key steps:

- Issuance of 13.9 million PPR common shares to the shareholders of LPR Canada in exchange for all LPR Canada common shares;
- Issuance of 60.9 million PPR common shares in exchange for all LPR Canada preferred shares;
- Amalgamation of Lone Pine Resources with a wholly-owned subsidiary of PPR, whereby PPR will become the sole owner of the amalgamated company. The outstanding Lone Pine Resources common shares were cancelled without any consideration; and
- The acquisition of all of the issued and outstanding common voting shares of Arsenal with 22.7 million PPR common shares pursuant to the Arrangement in accordance with the terms and conditions of the arrangement agreement dated June 23, 2016 as amended on August 2, 2016 (the "Business Combination").

The exchange of PPR common shares for LPR Canada preferred shares and LPR Canada common shares, and the amalgamation of PPR's wholly owned-subsidiary with Lone Pine Resources were not considered business combinations as there was no change to the controlling shareholder group resulting from the Transaction. Accordingly, the consolidated financial statements of PPR have been prepared as a continuation of LPR Canada and Lone Pine Resources' combined and consolidated financial statements.

The concurrent acquisition of Arsenal common shares has been accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business and the assets and liabilities assumed are recorded at their fair values (Note 4). Transaction costs associated with the acquisition are expensed when incurred.

On September 12, 2016, PPR elected to eliminate its contributed surplus, excluding the portion related to the outstanding long-term incentive awards, accumulated deficit and accumulated other comprehensive income against its share capital. The Company's share capital was reduced solely for accounting purposes, without payment or reduction to the Company's or its subsidiaries' stated capital or paid up capital. Accordingly, the accumulated

deficit as at September 30, 2016 reflects the results of operations of PPR from September 12, 2016 to September 30, 2016.

## 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 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" available at www.ppr.ca). 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 November 8, 2016.

### (b) Principles of Consolidation

At September 30, 2016, the Interim Financial Statements included the accounts of PPR and its wholly owned subsidiaries, including LPR Canada, Lone Pine Resources, Lone Pine Resources (Holdings) Inc., Arsenal, Arsenal Energy USA Inc. and Arsenal Energy Holdings Ltd. All inter-entity transactions have been eliminated upon consolidation between PPR and its subsidiaries in these consolidated financial statements. PPR's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

Arsenal's operating results are included in these consolidated financial statements since September 12, 2016, the closing date of the Business Combination.

### (c) 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.

### (d) Functional and Presentation Currency

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

### (e) 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 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 are outlined in the Annual Financial Statements.

In addition to the significant areas of estimation uncertainty and critical judgements disclosed in the Annual Financial Statements, the following significant judgements, estimates and assumptions were made by management in the condensed interim consolidated financial statements as at and for the three and nine months ended September 30, 2016:

- Business combinations were accounted for using the acquisition method of accounting where the acquired assets, liabilities and consideration issued were all fair valued. The determination of fair value requires the use of assumptions and estimates related to future events. The valuation of property and equipment includes key assumptions and estimates related to oil and gas reserves acquired, forecasted commodity prices, expected production volumes, future development costs, operating costs and discount rates. The valuation of exploration and evaluation assets includes key assumptions and estimates related to recent transactions on similar assets considering geographic location and risk profile. The valuation of the decommissioning liabilities and other liabilities includes estimates related to the timing and amount of anticipated cash outflows as well as for inflation rates and discount rates. As PPR common shares were issued in exchange for AEI's common shares, PPR common shares were fair valued with reference to PPR's enterprise value, which in turn was determined by fair valuing PPR's underlying assets and liabilities. Key assumptions used to fair value PPR's assets and liabilities were similar to the ones mentioned above. In addition, PPR's enterprise value was calibrated against trading metrics of recent market transactions for reasonableness. Changes in assumptions and estimates used in the determination of assets and liabilities acquired and consideration issued could result in changes to the values assigned to the assets, liabilities and goodwill or a bargain purchase gain. This could in turn impact future earnings or loss as a result of changes in the realization of assets value or settlement of liabilities.

## 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 to the current year's presentation.

As a result of the Business Combination (Note 4), the Company has reassessed its groupings of cash-generating units ("CGUs") to incorporate the assets acquired. As a result, the Company added a new CGU, Princess. Other assets were grouped with previously existing CGUs considering the integration of assets, geological formation, geographical proximity, the existence of common sales points and shared processing facilities and the way in which management monitors its operations. The determination of CGUs requires significant judgement and interpretation as disclosed in Note 2(e) of the Annual financial statements. As at September 30, 2016, the Company's CGUs include Evi, Wheatland, Princess, Provost (previously Hayter) and Other.

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

## 4. BUSINESS COMBINATION

On September 12, 2016, the Arrangement was completed whereby PPR acquired all of the issued and outstanding common shares of Arsenal through the issuance of PPR common shares (Note 1). Arsenal was a public oil and natural gas exploration, development and production company, listed on the TSX, with reserves, producing properties and prospects primarily located in Alberta.

PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the nine months ended September 30, 2016 included approximately $0.9 million and $0.2 million, respectively, attributable to the Arsenal acquisition. Had the Arrangement closed on January 1, 2016 PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the nine months ended September 30, 2016 would have been approximately $36.5 million and $9.1 million, respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable.

The acquisition of Arsenal has been accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business. The following table summarizes the acquisition date fair value of consideration paid and the preliminary purchase price allocation:

| *($000s)* | |
|---|---|
| Allocation: | |
| Property and equipment | **67,065** |
| Exploration and evaluation assets | **3,573** |
| Cash | **249** |
| Accounts receivable | **3,035** |
| Other current assets | **511** |
| Current liabilities | **(10,615)** |
| Derivative liability | **(286)** |
| Decommissioning obligations | **(21,487)** |
| Other liabilities | **(3,310)** |
| Net assets acquired | **38,735** |

| | |
|---|---|
| Consideration: | |
| Shares issued (22,678,817 common shares at $1.71 per share) | **38,735** |

The fair values of cash and working capital including accounts receivable, other current assets and accounts payable approximate their carrying values due to their short-term maturities. The fair value of the remaining assets and liabilities included the use of certain key assumptions as described under Note 2(d) to the Interim Financial Statements.

The fair value of consideration issued was calculated with reference to the enterprise value of PPR, based on the underlying consolidated assets and liabilities and confirmed through observable market trading multiples for similar entities.

The recognized amounts of identifiable assets, liabilities and consideration issued are preliminary estimates and are subject to change.

Transaction costs incurred to effect the Arrangement with Arsenal incurred in the three and nine months ended September 30, 2016 of $1.5 million and $1.8 million, respectively, (2015 – $nil) were recognized as expense in the statement of loss. Transaction costs included primarily legal fees, professional fees, and change of control settlements.

## 5. EXPLORATION AND EVALUATION ASSETS

| *($000s)* | |
|---|---|
| Cost Balance – December 31, 2015 | 77,384 |
| Additions | **19,313** |
| Acquisitions (Note 4) | **3,573** |
| Transfers to oil and gas property and equipment (Note 6) | **(8,403)** |
| Exploration and evaluation expense | **(49)** |
| Cost Balance – September 30, 2016 | **91,818** |
| | |
| Provision for impairment – December 31, 2015 | (29,070) |
| Impairment loss | **(25,854)** |
| Provision for impairment – September 30, 2016 | **(54,924)** |
| | |
| Net book value – December 31, 2015 | 48,314 |
| Net book value – September 30, 2016 | **36,894** |

Exploration and evaluation (“E&E”) assets consist of the Company’s undeveloped land and exploration and pilot projects which are pending the determination of proven or probable reserves.

For the three and nine months ended September 30, 2016, the Company recognized an impairment loss related to leases that are due to expire in the next twelve months in the Evi CGU of $0.9 million to an estimated recoverable amount of $0.4 million based on its fair value less cost of disposal “FVLCD”. The FVLCD was determined using a market approach based on the estimated selling price of land 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) in the Annual Financial Statements for information on the fair value hierarchy).

Additionally, during the second quarter of 2016, due to successful drilling in the Wheatland area and additional development prospects from the proposed Arrangement with Arsenal, along with a prolonged period of political uncertainty around oil and gas development in the province of Quebec, management has shifted its exploration and development priorities, which in turn triggered an impairment indicator related to E&E assets in the Quebec exploratory area as at June 30, 2016. The impairment assessment resulted in the recognition of $25.0 million of impairment in the nine months ended September 30, 2016 against the Quebec exploratory area to a recoverable amount of $13.0 million based on its value in use.

Impairment recognized in the three and nine months ended September 30, 2015 of $1.5 million and $3.2 million respectively related to the write-off of certain undeveloped lands and pre-drill cost that the Company no longer intended to explore in light of low commodity prices.

**6. PROPERTY AND EQUIPMENT**

| *(In $000s)* | Production and Development | Office Equipment | Total |
|---|---|---|---|
| Cost: | | | |
| Balance at December 31, 2015 | 350,735 | 3,833 | 354,568 |
| Additions – property and equipment | **10,963** | **159** | **11,122** |
| Acquisitions (Note 4) | **67,065** | **—** | **67,065** |
| Disposals | **(188)** | **—** | **(188)** |
| Transfers from E&E assets (Note 5) | **8,403** | **—** | **8,403** |
| Balance at September 30, 2016 | **436,978** | **3,992** | **440,970** |
| | | | |
| Accumulated impairment, depletion and depreciation: | | | |
| Balance at December 31, 2015 | (237,149) | (2,147) | (239,296) |
| Depletion and depreciation | **(13,384)** | **(407)** | **(13,791)** |
| Impairment loss | **(1,048)** | **—** | **(1,048)** |
| Disposals | **95** | **—** | **95** |
| Balance at September 30, 2016 | **(251,486)** | **(2,554)** | **(254,040)** |
| | | | |
| Net book value: | | | |
| At December 31, 2015 | 113,586 | 1,686 | 115,272 |
| At September 30, 2016 | **185,492** | **1,438** | **186,930** |

As at September 30, 2016, the Company assessed its production and development assets for indicators of impairment. Based on the assessment, no indicators of impairment were noted.

During the three and nine months ended September 30, 2016, the Company recorded impairment of $0.8 million for changes in estimated decommissioning liabilities of certain properties with a carrying value of nil. The year to date impairment loss includes an impairment of $0.2 million recorded in the second quarter of 2016 on the write down of certain surplus equipment and a recovery of $0.1 million recorded in the first quarter of 2016 as a result of an increase in the net realizable value of inventory.

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 Provost CGU. The Provost 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%. Additionally, 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**

Under the Company's credit facility, PPR had outstanding long-term debt of $2.1 million (December 31, 2015 – $nil) and $5.3 million of letters of credit issued as at September 30, 2016 (December 31, 2015 – $4.5 million).

On September 12, 2016, the Company renewed and amended its credit facility with a syndicate of banks (the "Amended Credit Facility"). Under the Amended Credit Facility, PPR has a $45 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, PPR may extend the term-out date by 364 days. The next term-out date is set at May 30, 2017; as such the maturity date of Amended Credit Facility is May 30, 2018. The Amended Credit Facility is collateralized by a demand debenture from PPR 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 September 30, 2016, the Company was in compliance with all covenants under the Amended Credit Facility.

## 8. LPR CANADA PREFERRED SHARES

Pursuant to the Arrangement, outstanding LPR Canada preferred shares ("Preferred Shares") were exchanged for PPR common shares at an exchange ratio of 0.81, whereby 60.9 million PPR common shares were issued. As the preferred shareholders were also common shareholders of PPR, the transaction was in substance an equity contribution to the Company. Upon the exchange, PPR derecognized the Preferred Shares liability and the Preferred Share conversion liability (collectively, "Preferred Share Liabilities") and recorded the PPR common shares at the carrying value of the Preferred Share Liabilities, resulting in an increase to the share capital of $193.9 million without any recognition of gains or losses.

During the three and nine months ended September 30, 2016, a $0.4 million unrealized foreign exchange loss (2015 – $10.6 million) and $9.8 million of unrealized foreign exchange gain (2015 – $20.2 million loss) was recognized, respectively, 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 | **1,164** |
| Liabilities acquired (Note 4) | **21,487** |
| Payments | **(2,883)** |
| Change in estimates | **6,293** |
| Accretion | **907** |
| Total Balance – September 30, 2016 | **97,470** |
| | |
| Comprised of: | |
| Current portion – September 30, 2016 | **3,500** |
| Long-term portion – September 30, 2016 | **93,970** |
| | |
| Current portion – December 31, 2015 | 3,500 |
| Long-term portion – December 31, 2015 | 67,002 |

The Company has estimated the undiscounted total future liabilities of approximately $145.6 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 September 30, 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%).

Decommissioning obligations acquired as part of the Business Combination (Note 4) were initially measured at fair value using a credit-adjusted risk free rate of 5.2% to discount estimated future cash flows. In accordance with PPR's accounting policy, decommissioning obligations are carried on the financial statements using risk-free discount rates. The revaluation of the acquired decommissioning obligations to the risk-free rates as disclosed above resulted in an increase to the carrying values of decommissioning liabilities of $15.2 million, which was included in changes in estimates. Partially offsetting the increase was an $8.9 million decrease due to changes in cost estimates that were recognized as of September 30, 2016.

## 10. SHARE CAPITAL

### (a) Authorized

The Company is authorized to issue an unlimited number of common shares.

### (b) Units Outstanding

| *(000s)* | Number of Shares | Amount |
|---|---|---|
| Common shares: | | |
| **PPR Shares, inception** | — | — |
| Lone Pine Resources common shares, December 31, 2015 | 99,986 | — |
| LPR Canada common shares, December 31, 2015 | 24,986 | 73,912 |
| **Lone Pine combined and consolidated common shares** | 124,972 | 73,912 |
| Cancellation of Lone Pine Resources common shares (Note 1) | (99,986) | — |
| Exchange of PPR shares for LPR Canada common shares[1] | (11,134) | — |
| **PPR Shares outstanding upon the exchange for Lone Pine common shares (Note 1)** | 13,852 | 73,912 |
| PPR Shares issued in exchange for the Preferred Shares (Notes 1 & 8) | 60,878 | 193,851 |
| **PPR Shares outstanding prior to Arsenal acquisition (Notes 1 & 4)** | 74,730 | 267,763 |
| PPR Shares issued in exchange for Arsenal shares (Notes 1 & 4) | 22,679 | 38,735 |
| Reduction of consolidated share capital (Note 1) | — | (198,570) |
| **PPR Shares, September 30, 2016** | 97,409 | 107,928 |

(1) LPR Canada common shares were exchanged for PPR common shares at a conversion ratio of 0.55.

### (c) Loss per Share

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(000s)* | 2016 | 2015 | 2016 | 2015 |
| Net loss for the period | (11,588) | (12,985) | (51,614) | (44,504) |
| Weighted average number of common shares [1] | | | | |
| Basic & Diluted | 97,409 | 97,409 | 97,409 | 97,409 |
| Basic & Diluted net loss per share | (0.12) | (0.13) | (0.53) | (0.46) |

(1) As the historical financial statements were prepared on a combined and consolidated basis it is not possible to measure loss per share in accordance with IAS 33 until subsequent to the closing of the Arrangement on September 12, 2016 when the entities were brought under a common parent entity. The Company calculated loss per share for the current and historical periods by assuming that the shares issued upon the closing of the Arrangement at September 12, 2016 were outstanding since the beginning of the period.

## 11. SHARE-BASED COMPENSATION

### (a) Long-term incentive plans subsequent to the Arrangement

In conjunction with the closing of the Arrangement, the Company adopted new long-term incentive plans for employees and directors pursuant to which share-based incentive awards may be granted.

For IFRS purposes, the Company was deemed to have granted 752,174 stock options to employees, officers and directors at an exercise price of $0.96 per share on October 6, 2016 when the grants were communicated to employees. Options granted vest in three tranches with the first tranche vesting on January 1, 2017 and the second and third tranches vesting on January 1, 2018 and January 1, 2019, respectively. Each stock option granted entitles the holder to purchase one common share of the Company at $0.96 per share and will expire five years after the grant date.

Also on October 6, 2016, the Company issued 116,427 performance share units (PSUs) to certain officers of the Company. PSUs vest on December 15, 2018 and are subject to a multiplier from 0 to 2 based on share performance relative to a selected peer group. PSUs will be settled in common shares or cash at the discretion of the Company.

### (b) Long-term incentive plans prior to the Arrangement

Outstanding restricted shares units (RSUs) were issued in 2014 pursuant to the Company's previous Equity Incentive Plan ("EIP") adopted in that year. The RSUs granted vested over two years for directors and three years for other participants. As at September 30, 2016, the RSUs issued to current and former directors were fully vested and two of the three tranches of RSUs issued to other participants had vested, with the third tranche vesting on January 31, 2017. Pursuant to the award agreements, vested RSUs are only to 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. The Arrangement (Note 1) meets the definition of a corporate change as defined in the EIP and as such, vested RSUs were settled in exchange for PPR common shares shortly after closing. The unvested portion of RSUs will be settled subsequent to the January 31, 2017 vesting date.

The number of RSUs outstanding is as follows:

| | Directors[1] | Officer and Employees[1] | Total[1] |
|---|---|---|---|
| Outstanding – December 31, 2015 | 203,263 | 1,199,772 | 1,403,035 |
| Cancellations – terminations | — | (25,537) | (25,537) |
| Settled, pending PPR common share issuance | (203,263) | (1,029,323) | (1,232,586) |
| Outstanding – September 30, 2016 | — | 144,912 | 144,912 |
| Weighted average fair value per RSU at grant date: | $1.59 | $1.57 | |

[1] Under the terms of the award agreements vested RSUs were to be settled 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.

RSUs issued per the table above have been converted to the equivalent PPR common shares based on the conversion ratios of 0.81 per Preferred Share and 0.55 per LPR Canada common share.

On October 3, 2016, the entity issued PPR common shares per the settlement of 203,263 RSUs issued to directors and 1,029,323 RSUs issued to officers and employees.

### (c) Share-based compensation expense

For the three and nine months ended September 30, 2016, share-based compensation of $0.1 million (2015 – $0.2 million) and $0.2 million (2015 – $0.9 million), respectively was included in general and administrative expense net

of a nominal amount of capitalized share based compensation. A nominal amount of share-based compensating was included in operating expense for the three and nine months ended September 30, 2016 and September 30, 2015.

## 12. SUPPLEMENTAL INFORMATION

### Cash Flow Presentation

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | 2015 | **2016** | 2015 |
| Source (use) of cash: | | | | |
| Accounts receivable | **(2,203)** | 1,477 | **(190)** | 1,536 |
| Prepaid expenses and other current assets | **(60)** | 461 | **362** | 182 |
| Accounts payable and accrued liabilities | **16,068** | 2,325 | **13,455** | (920) |
| Working capital acquired (Note 4) | **(7,069)** | — | **(7,069)** | — |
| | **6,736** | 4,263 | **6,558** | 798 |
| Related to operating activities | **2,147** | 2,413 | **3,828** | (1,433) |
| Related to investing activities | **4,589** | 1,850 | **2,730** | 2,231 |
| | **6,736** | 4,263 | **6,558** | 798 |
| Other: | | | | |
| Interest paid during the period | **125** | 242 | **409** | 512 |

## 13. OPERATING EXPENSE

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *($000s)* | **2016** | 2015 | **2016** | 2015 |
| Lease operating expense | **4,237** | 3,054 | **12,397** | 9,981 |
| Transportation and processing | **1,116** | 625 | **3,546** | 828 |
| Production and property taxes | **404** | 411 | **1,270** | 1,416 |
| Operating expense | **5,757** | 4,090 | **17,213** | 12,225 |

## 14. GENERAL AND ADMINISTRATIVE COSTS

| ($000s) | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Salaries and benefits | 1,230 | 1,453 | 4,033 | 4,212 |
| Share-based compensation | 54 | 211 | 197 | 867 |
| Office rents and leases | 367 | 400 | 1,058 | 1,204 |
| Professional fees | 1,023 | 895 | 2,244 | 2,730 |
| Other – office | 528 | 560 | 1,494 | 1,610 |
| | 3,202 | 3,519 | 9,026 | 10,623 |
| Amounts capitalized | (264) | (339) | (934) | (449) |
| General and administrative expense | 2,938 | 3,180 | 8,092 | 10,174 |

## 15. FINANCE COSTS

| ($000s) | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Interest expense | 138 | 167 | 500 | 659 |
| Accretion – preferred shares (Note 8) | 3,140 | 3,629 | 11,024 | 10,264 |
| Accretion – decommissioning liabilities (Note 9) | 329 | 346 | 907 | 1,004 |
| Accretion – other liabilities | 7 | — | 7 | — |
| Finance cost | 3,614 | 4,142 | 12,438 | 11,927 |

## 16. REORGANIZATION COSTS

| ($000s) | Three Months Ended September 30, 2016 | 2015 | Nine Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Salaries and benefits – terminations | — | — | 382 | 1,126 |
| Share-based compensation – terminations | — | — | — | 176 |
| Professional fees | — | 6 | 10 | 21 |
| Amortization and other cost | — | — | — | (2) |
| Reorganization cost | — | 6 | 392 | 1,321 |

## 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. Accounts receivable are classified as loans and receivables. The remaining instruments are considered other financial liabilities.

As of September 30, 2016, PPR had $nil cash and cash equivalents (December 31, 2015 – $4.0 million cash and $9.0 million of 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 PPR's credit facilities approximates the carrying value (excluding deferred financing charges) as they bear floating market rates.

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 PPR'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 nine months ended September 30, 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 $55 million borrowing capacity under the Amended Credit Facility, of which $7.4 million was utilized as at September 30, 2016 including $5.3 million for the issuance of letters of credit. In addition, as at September 30, 2016, PPR's working capital deficit was $14.5 million (December 31, 2015 – working capital of $18.3 million). The significant change in working capital was due to the acquisition of Arsenal (see Note 4), changes in the fair value of derivative instruments (see Note 17 (b) (iii)), use of cash to fund investing activities during 2016 and increased accounts payable and accrued liabilities pertaining to higher level of capital expenditures as of September 30, 2016.

The Company has determined that its current financial obligations, including current commitments and working capital deficit, are adequately funded from the available borrowing capacity and from cash flows derived from operations. Except for long-term debt of $2.1 million and non-current liabilities related to derivative instruments, all of the Company's financial liabilities are due within one year.

### (ii) Capital Management

PPR'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, the Amended Credit Facility and working capital (deficit). PPR 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. PPR 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 adjusting capital spending, issuing new common shares, issuing new debt or replacing existing debt, and acquiring or disposing of assets.

The Company monitors its capital structure based on the ratio of total debt to trailing twelve months Adjusted EBITDAX (as defined in the Amended Credit Facility). Total debt to Adjusted 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 Adjusted EBITDAX for the most recent four consecutive fiscal quarters. The Company's goal is to manage this ratio well within the financial covenants imposed on it under the Amended Credit Facility.

### (iii) Commodity Price Risk

PPR 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 contracts as at September 30, 2016:

| Commodity Contract | Notional Quantity | Remaining Term | Reference | | Weighted Average Price | Contract Type |
|---|---|---|---|---|---|---|
| Oil | 950 bbls/d | October 1, 2016 – December 31, 2016 | CDN$ WTI | $ | 83.92 | Swap |
| Light Oil Differential | 1,000 bbls/d | October 1, 2016 – December 31, 2016 | CDN$ MSW[(1)] | $ | (5.35) | Swap |
| Natural Gas | 4,300 GJ/d | October 1, 2016 – December 31, 2016 | AECO 7A Monthly Index | $ | 2.37 | Swap |
| Oil | 350 bbls/d | October 1, 2016 – December 31, 2016 | CDN$ WTI | $ | 58.00/ 67.50 | Collar |
| Oil | 250 bbls/d | October 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 |
| Light Oil Differential | 1,000 bbls/d | January 1, 2017 – December 31, 2017 | CDN$ MSW[(1)] | $ | (5.70) | Swap |
| Natural Gas | 1,800 GJ/d | January 1, 2017 – December 31, 2017 | AECO 7A Monthly Index | $ | 2.60 | Swap |
| Oil | 382 bbls/d | January 1, 2017 – December 31, 2017 | CDN$ WTI | $ | 93.50 | Sold Call Option |
| Oil | 500 bbls/d | January 1, 2017 – December 31, 2017 | CDN$ WTI | $ | 58.00/ 67.50 | Collar |
| Oil | 500 bbls/d | January 1, 2018 – December 31, 2018 | USD$WTI | $ | 65.00 | Sold Call Option |
| 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

Subsequent to September 30, 2016, the Company entered into the following derivative contract:

| Commodity Contract | Notional Quantity | Remaining Term | Reference | Weighted Average Price | Contract Type |
|---|---|---|---|---|---|
| Oil | 500 bbls/d | January 1, 2017 – December 31, 2017 | CDN$ WTI | $ 65.00/ 72.00 | Collar |

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

| September 30, 2016 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Derivative instruments – current asset | 3,465 | — | 3,465 |
| Derivative instruments – current liabilities | — | (122) | (122) |
| Derivative instruments – long-term liabilities | (2,186) | (37) | (2,223) |
| Total asset (liability) | 1,279 | (159) | 1,120 |

| 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 asset | 13,449 | — | 13,449 |

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three and nine months ended September 30, 2016 and 2015:

| Three Months Ended September 30, 2016 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain on derivative instruments | 2,142 | 115 | 2,257 |
| Unrealized gain (loss) on derivative instruments | (2,000) | 64 | (1,936) |
| Total gain | 142 | 179 | 321 |

| Three Months Ended September 30, 2015 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain on derivative instruments | 4,421 | — | 4,421 |
| Unrealized gain on derivative instruments | 4,118 | — | 4,118 |
| Total gain | 8,539 | — | 8,539 |

| Nine Months Ended September 30, 2016 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain on derivative instruments | 7,875 | 506 | 8,381 |
| Unrealized loss on derivative instruments | (11,884) | (159) | (12,043) |
| Total gain (loss) | (4,009) | 347 | (3,662) |

| Nine Months Ended September 30, 2015 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain on derivative instruments | 11,864 | — | 11,864 |
| Unrealized loss on derivative instruments | (6,113) | — | (6,113) |
| Total gain | 5,751 | — | 5,751 |

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 September 30, 2016 and December 31, 2015. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

| September 30, 2016<br>*($000s)* | **Gross Assets (Liabilities)** | **Amount Offset Gross Assets (Liabilities)** | **Net Amount Presented** |
|---|---|---|---|
| Current: | | | |
| Derivative instruments assets | **7,031** | **(3,566)** | **3,465** |
| Derivative instruments liabilities | **(3,688)** | **3,566** | **(122)** |
| Long-term: | | | |
| Derivative instruments assets – long-term | **2,833** | **(2,833)** | **—** |
| Derivative instruments liabilities – long-term | **(5,056)** | **2,833** | **(2,223)** |

| December 31, 2015<br>*($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 | — |

## 18. COMMITMENTS

The Company has non-cancellable contractual obligations summarized as follows:

| | **2016[1]** | **2017** | **2018** | **2019** | **2020** | **Thereafter** | **Total** |
|---|---|---|---|---|---|---|---|
| Debt | **21** | **84** | **2,328** | **—** | **—** | **—** | **2,433** |
| Operating Leases – net | **552** | **1,673** | **2,306** | **2,365** | **2,365** | **2,562** | **11,823** |
| Firm transportation agreements | **55** | **191** | **76** | **23** | **—** | **—** | **345** |
| Capital commitments | **4,405** | **13,775** | **20,000** | **—** | **—** | **—** | **38,180** |
| Flow-through share commitment | **577** | **—** | **—** | **—** | **—** | **—** | **577** |
| Other agreements | **256** | **434** | **51** | **54** | **57** | **676** | **1,528** |
| Total | **5,866** | **16,157** | **24,761** | **2,442** | **2,422** | **3,238** | **54,886** |

(1) Remainder of period from October 1, 2016 to December 31, 2016

Included in operating leases – net are sublease recoveries in amount of $1.7 million over the contractual period.

The flow-through share commitment relates to flow-through shares issued by Arsenal in 2015 and will be met by incurring Canadian Exploration Expenses as defined in the *Income Tax Act* and renouncing the related income tax deductions to investors.

Capital commitments include the lease acquisition capital commitment and the farm-in arrangement capital commitment as described below. The capital commitments and flow-through share commitment may be fulfilled by the same exploration expenditures.

In addition, the Company has estimated decommissioning liabilities on its interests in wells and facilities in the total amount of $145.6 million on an undiscounted basis, of which, $16.0 million is estimated to be incurred over the next five years.

**(a) Lease Acquisition Capital Commitment**

As described in Note 22 of the Annual Financial Statements, on June 30, 2015, the Company entered into a lease acquisition agreement for minerals covering approximately 69,000 net acres of undeveloped lands in the Wheatland area of southeast Alberta for cash consideration of $9.3 million. Pursuant to the lease acquisition agreement, the Company is committed to annual capital expenditures for three years ending July 1, 2018. During the third quarter of 2016, the lease acquisition agreement was amended whereby an additional approximately 4,500 net acres of undeveloped land in the Wheatland area were purchased for $0.6 million. 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, PPR may defer a portion of the drilling commitment from that commitment period to be allocated over the remaining term. Under the amended agreement, the Company can meet its original capital commitment by incurring costs related to the additional undeveloped land purchased as well as on the lands purchased under the original agreement.

**(b) Farm-in Arrangement Capital Commitment**

As described in Note 22 of the Annual Financial Statements, effective December 8, 2015, the Company entered into a farm-in and option agreement to farm-in certain lands in the Wheatland area. Under the farm-in arrangement, a minimum of $20 million of drilling and completion expenditures ("the Gross Capital Commitment") must be incurred on farm-in lands by December 31, 2016. Depending on the participation of the farmor, the Company's share of the expenditures may be between 50% and 100% of the Gross Capital Commitment. During the second quarter of 2016, the farm-in and option agreement was amended to allow more flexibility of the timing on drilling test wells and option wells throughout 2016 and 2017. The Gross Capital Commitment to be incurred by December 31, 2016 was unchanged at $20 million. As at September 30, 2016, $15.6 million of the commitment has been met. Of the $4.4 million commitment presented in the table above, up to $2.2 million may be incurred by the farmor rather than by the Company.