Lone Pine Resources Inc.
Lone Pine Resources Canada Ltd.

Management's Discussion and Analysis
For the Three Months Ended March 31, 2016

Dated: May 25, 2016

Advisories

The following management's discussion and analysis ("MD&A") of Lone Pine Resources Inc. ("Lone Pine Resources") and Lone Pine Resources Canada Ltd. ("LPR Canada"; collectively "Lone Pine" or the "Company") provides management's analysis of the Company's results of operations, financial position and outlook as at and for the three months ended March 31, 2016. This MD&A is dated May 25, 2016 and should be read in conjunction with the unaudited condensed interim consolidated and combined financial statements of Lone Pine as at and for the three months ended March 31, 2016 (the "Interim Financial Statements"), the audited annual combined and consolidated financial statements of Lone Pine as at and for the year ended December 31, 2015 (the "Annual Financial Statements") and the 2015 annual MD&A dated April 5, 2016 (the "Annual MD&A").

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

Unless otherwise noted, all financial information provided herein is reported in Canadian dollars. Production volumes are presented on a working-interest basis, before royalties.

This MD&A contains forward-looking statements and non-IFRS measures. Readers are cautioned that the MD&A should be read in conjunction with Lone Pine's disclosures under the headings "Forward-Looking Statements" and "Non-IFRS Measures" included at the end of this MD&A.

Abbreviations

The following is a list of abbreviations that may be used in this MD&A:

bbl	barrel
bbl/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mboe	thousands of barrels of oil equivalent
mmboe	millions of barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmbtu	million British Thermal Units
GJ	gigajoule

AECO	AECO "C" hub price index for Alberta natural gas
CGU	cash-generating-unit
DD&A	depreciation, depletion and amortization
E&E	exploration and evaluation
GAAP	generally accepted accounting principles
G&A	general and administrative
IFRS	International Financial Reporting Standards
P&D	production and development
RSU	restricted share unit
WTI	West Texas Intermediate

Financial and Operational Highlights

	Three Months Ended March 31	
($000s except per unit amounts)	**2016**	2015
Financial		
Oil and natural gas revenue	**7,203**	9,770
EBITDAX[1]	**1,097**	5,543
Net earnings (loss)	**3,197**	(21,590)
Total capital expenditures, net of proceeds on dispositions	**10,732**	1,300
Working Interest Production Volumes		
Crude oil (bbls/d)	**1,884**	1,961
Natural gas (Mcf/d)	**7,698**	5,267
Natural gas liquids (bbls/d)	**124**	80
Total (boe/d)	**3,291**	2,919
% Liquids	**61%**	70%
Average Realized Prices		
Crude oil ($/bbl)	**33.63**	45.72
Natural gas ($/Mcf)	**1.86**	3.41
Natural gas liquids ($/bbl)	**12.23**	11.54
Total ($/boe)	**24.05**	37.18
Operating Netback ($/boe)[2]		
Realized price	**24.05**	37.18
Royalties	**(2.17)**	(2.08)
Operating costs	**(21.47)**	(18.44)
Operating netback	**0.41**	16.66

First quarter 2016 highlights:

- Production averaged 3,291 boe/day (61% liquids), a 13% increase compared to the first quarter of 2015 due to production additions from the 2015 and 2016 Wheatland drilling program, with 5 wells on production between December 2015 and the end of the first quarter 2016, resulting in an increase in first quarter production of approximately 1,000 boe/d. Production additions were offset by natural declines and the shut-in of certain uneconomic wells since May 2015.

- On January 22, 2016, Lone Pine experienced a breach in an above-ground section of wellhead pipeline in the Wheatland area. As a result, the Company has recognized $1.0 million of site clean-up and remediation costs in Q1 2016 operating expenses. The Company has filed for insurance coverage for the incident.

- Operating netback after realized hedging gains was $12.38/boe for the first quarter of 2016, a decrease of $20.95/boe from the first quarter of 2015. The decrease was primarily due to a decrease of $13.13/boe in realized prices, combined with a $4.70 decrease in realized gains on derivative in instruments and a $3.03/boe increase in operating costs.

[1,2] EBITDAX and operating netback are non-IFRS measures and are defined in Other Advisory.

- EBITDAX was $1.1 million, a $4.4 million decrease as compared to the first quarter of 2015 primarily due to lower operating netback after realized hedging gains, partially offset by higher production and lower G&A expenses.

- Capital expenditures in the quarter were $10.7 million including $8.2 million on the Wheatland drilling program and $2.1 million on the second phase of the Evi waterflood project. At Wheatland, three of the four gross wells that were drilled in the fourth quarter of 2015 were tied-in and brought onstream in the first quarter of 2016. Another three gross wells were drilled during the first quarter of 2016, one of which came on production in March 2016 and the other two in April 2016. The average IP30 of the seven wells were above our type curve.

- Net earnings were $3.2 million, compared to a net loss of $21.6 million in the first quarter of 2015. The $24.8 million variance was largely due to the recognition of a $10.6 million foreign exchange gain in the first quarter of 2016 versus an $11.9 million foreign exchange loss in the first quarter of 2015. The foreign exchange gains and losses recognized substantially relate to US dollar denominated preferred shares.

- Exited the quarter with working capital of $6.2 million (including $4.2 million of cash) and no borrowings.

Outlook

Commodity prices continued to decline during the first quarter of 2016, which negatively impacted the industry's netbacks. Subsequent to the first quarter, prices have been showing a modest rebound due to supply disruptions globally despite OPEC failing to reach an agreement on freezing production. Lone Pine was not entirely immune to the challenging pricing environment; despite its strong hedging positions. We continue to work with our vendors and service providers to lower our operating and capital costs in order to adapt to the environment. With the lower cost structure, encouraging initial production results from our new drills, commodity price rebounds and steady cash flows from our hedging program, Lone Pine is well positioned for growth through its capital program. In addition, our strong balance sheet provides us with the financial flexibility to pursue both organic growth and M&A opportunities to provide accretive value to our shareholders.

Compared to Lone Pine's original guidance provided in the Annual MD&A, capital spending for 2016 remains the same at $32.7 million. Annual production guidance is also kept at around 3,500 boe/d. EBITDAX for the year of 2016 is expected to be approximately $13.8 million, a slight increase from the original guidance due to recent commodity price rebounds. Lone Pine plans to fund its capital program primarily with its cash flows from operations, existing cash on hand and borrowings from the credit facility.

Results of Operations

Production

	Three Months Ended March 31	
	2016	2015
Crude oil (bbls/d)	**1,884**	1,961
Natural gas (Mcf/d)	**7,698**	5,267
Natural gas liquids (bbls/d)	**124**	80
Total (boe/d)	**3,291**	2,919
Liquids Weighting	**61%**	70%

Lone Pine's production for the first quarter of 2016 increased by 13% to 3,291 boe/d from the first quarter of 2015. The increase was primarily the result of additions from the 2015 and 2016 Wheatland drilling program, which incorporates 4 wells drilled in 2015 and 3 wells drilled in 2016. As at March 31, 2016, 5 of the 7 wells were on production, resulting in an increase in 2016 first quarter production of approximately 1,000 boe/d. Increases in production from the Wheatland drilling program were offset by natural production declines and the shut-in of uneconomic wells since May 2015.

The decline in the liquids-weighting from 70% in the first quarter of 2015 to 61% in the first quarter of 2016 is primarily related to production in the Wheatland area, which has a lower liquids-weighting than the remaining assets.

Revenue

	Three Months Ended March 31	
($000s, except per unit amounts)	**2016**	2015
Revenue ($000s)		
Crude oil	**5,765**	8,070
Natural gas	**1,300**	1,616
Natural gas liquids	**138**	84
Oil and natural gas revenue	**7,203**	9,770
Average Realized Prices		
Crude oil ($/bbl)	**33.63**	45.72
Natural gas ($/Mcf)	**1.86**	3.41
Natural gas liquids ($/bbl)	**12.23**	11.54
Total ($/boe)	**24.05**	37.18
Benchmark Prices		
Crude oil - WTI ($/bbl)	**45.96**	60.27
Crude oil - Edmonton Par ($/bbl)	**40.24**	51.06
Natural gas - AECO daily index-5A ($/Mcf)	**1.83**	2.75
Exchange rate - US$/CDN$	**0.73**	0.81

Lone Pine's first quarter 2016 revenue decreased by 26% or $2.6 million from the first quarter of 2015. The 29% decrease in crude oil revenue and 20% decrease in natural gas revenue were largely due to lower realized prices which dropped by 26% and 45%, respectively. The lower realized prices reflected declines in benchmark prices. The decrease in realized crude oil prices were compounded by a decrease in production, while the declines in realized natural gas prices were offset by increases in production of 2,431 Mcf/d in the first quarter of 2016. The decrease in the overall average realized prices of 35% was also due to a lower liquids-weighted production mix in 2016 than in 2015.

Royalties

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Royalties	**649**	546
Per boe	**2.17**	2.08
Percentage of revenue	**9.0%**	5.6%

The majority of Lone Pine's royalties are paid to the Crown, which are based on various sliding scales that are dependent on incentives, production volumes and commodity prices. Production in the Wheatland area is subject to a 17.5% flat royalty rate, which is currently higher than the royalty rates of the remaining properties. On a percentage of revenue basis, royalties for the three months ended March 31, 2016 increased from the corresponding period in 2015 primarily as a result of royalties incurred on Wheatland production.

Commodity Price and Risk Management

Lone Pine enters into derivative risk management contracts to manage exposure to commodity price fluctuations and to protect and provide certainty on a portion of the Company's cash flows. Lone Pine considers these derivative contracts to be an effective means to manage cash flows from operations.

	Three Months Ended March 31	
($000s)	**2016**	2015
Realized gains on derivatives	**3,585**	4,380
Unrealized gains (losses) on derivatives	**852**	(3,581)
Total gains on derivatives	**4,437**	799
Per boe		
Realized gains on derivatives	**11.97**	16.67
Unrealized gains (losses) on derivatives	**2.84**	(13.63)
Total gains on derivatives	**14.82**	3.04

As at March 31, 2016, the Company held the following outstanding derivative contracts:

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[3]	$	-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

[3] Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI

Subsequent to March 31, 2016, the Company 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[3]	$	-5.90	Swap
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	CDN$ WTI	$	58.00/ 67.50	Collar

All of the Company's derivatives contracts are entered into with counterparties that are lenders under the terms of Lone Pine's credit facility.

Operating Expenses

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Lease operating expense	**4,874**	3,829
Transportation and processing	**1,120**	374
Production and property taxes	**436**	642
Total	**6,430**	4,845
Per boe	**21.47**	18.44

Lease operating expense for the first quarter of 2016 increased by 27% from the same period in 2015 primarily due to site clean-up and remediation costs incurred in the Wheatland area. On January 22, 2016, Lone Pine experienced a breach in an above-ground section of wellhead piping. The estimated cost of site clean-up and remediation is $1.0 million and was recognized within lease operating expense for the first quarter of 2016. The Company has filed for insurance coverage for the incident.

Transportation and processing expense for the first three months of 2016 increased by $0.7 million as compared to the same period in 2015. The increase primarily relates to third party natural gas processing costs and natural gas transportation costs incurred on Wheatland production. Further contributing to the increase, transportation and processing expense in the first quarter of 2015 included certain positive cost recovery adjustments that were received in the quarter relating to prior production periods.

On a per boe basis, the increase was primarily due to costs related to the Wheatland wellhead pipe breach incident. Excluding the costs related to this incident, operating expenses would have decreased by 2% from the prior year on a per boe basis.

Operating Netback

	Three Months Ended March 31	
($ per boe)	**2016**	2015
Revenue	**24.05**	37.18
Royalties	**(2.17)**	(2.08)
Operating costs	**(21.47)**	(18.44)
Operating netback	**0.41**	16.66
Realized gains on derivative instruments	**11.97**	16.67
Operating netback, after realized gains on derivative instruments	**12.38**	33.33

Compared against the same period in 2015, operating netback after realized gains on derivative instruments decreased by $20.95/boe in the first quarter of 2016. Decreases in realized revenue were compounded by increases in operating costs and royalties, and decreases in realized gains on derivative instruments.

General and Administrative ("G&A") Expenses

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
G&A expenses	**3,081**	3,695
Less amounts capitalized	**(377)**	(68)
Total G&A expenses	**2,704**	3,627
Per boe	**9.03**	13.80

For the quarter ended March 31, 2016, gross G&A decreased by $0.6 million or 17% compared to the same period in 2015. The decrease primarily relates to cost reduction initiatives. The change in capitalized G&A for the quarter ended March 31, 2016 as compared to the prior year corresponds to the increase in the level of capital activity.

Finance Costs

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Interest expense	**178**	251
Accretion and financing charges	**4,295**	3,579
Total finance costs	**4,473**	3,830
Per boe	**14.94**	14.58

There were no borrowings outstanding during the three months ended March 31, 2016 and 2015. The interest expense incurred in the first quarters of 2016 and 2015 includes the amortization of deferred financing charges, standby fees and interest incurred on outstanding letters of credit. Interest expense decreased by 29% in the first quarter of 2016 from the same period in 2015 due to decreases in interest rates on standby fees and letter of credit fees upon amendment and renewal of the Company's credit facility on July 30, 2015. The weighted average effective interest rate on letters of credit outstanding for the three months ended March 31, 2016 was 2.0% (March 31, 2015 – 2.5%).

Accretion and financing charges are non-cash expenses. During the first three months of 2016, the Company recognized $4.0 million accretion charges on the preferred shares (March 31, 2015 – $3.3 million). The remaining accretion charges related to the decommissioning liabilities.

Gain (Loss) on Foreign Exchange

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Realized gain (loss) on foreign exchange	**73**	(2)
Unrealized gain (loss) on foreign exchange	**10,575**	(11,880)
Total gain (loss) on foreign exchange	**10,648**	(11,882)

The foreign exchange gain (loss) relates mainly to the US dollar denominated preferred shares. The strengthening (weakening) of the Canadian dollar during a period would result in unrealized foreign exchange gain (loss).

Exploration and Evaluation Expense

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Exploration and evaluation expense	**26**	102
Per boe	**0.09**	0.39

Depletion and Depreciation

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
Depletion and depreciation	**4,658**	6,081
Per boe	**15.55**	23.14

Depletion and depreciation rates are subject to change based on changes in the carrying value of the asset base, changes in future development costs, reserve updates and changes in production by area. The decrease in the per boe depletion and depreciation rate in the first quarter of 2016 from the first quarter of 2015 incorporates the decrease in future development costs in the Evi area as well as lower finding and development costs at the Wheatland area.

Impairment (Recovery) Loss

	Three Months Ended March 31	
($000s, except per boe)	**2016**	2015
P&D impairment – decommissioning asset	**—**	1,236
Inventory impairment	**(125)**	—
Total impairment (recovery) loss	**(125)**	1,236

The impairment recovery of $0.1 million recorded in the first quarter of 2016 is the result of an increase in the net realizable value of inventory. The impairment loss of $1.2 million recorded in the first quarter of 2015 related to the change in decommissioning liability estimates for certain properties with a carrying value of nil.

Capital Expenditures

	Three Months Ended March 31	
($000s)	**2016**	2015
Drilling and completion	**6,057**	412
Equipment, facilities and pipelines	**4,160**	661
Land	**47**	208
Capitalized overhead, license and other	**468**	19
Total	**10,732**	1,300

Lone Pine focused its capital activities in the first quarter of 2016 in the Wheatland area including the drilling and completion of 3 gross (2.9 net) wells and expenditures on the construction of a multi-well battery and pipeline. Additional capital expenditures were spent on the second phase of the Evi waterflood project including pipeline expansion in the area.

During the first quarter of 2015, Lone Pine focused on capital activities in the Evi area, including electrification projects and well recompletion to enhance oil recovery.

Due to higher level of capital activities, capitalized overhead costs in the first quarter of 2016 increased, as compared against the same period in 2015.

Reorganization Costs

	Three Months Ended March 31	
($000s)	**2016**	2015
Salary and benefits	**266**	—
Professional fees	**10**	10
Total reorganization costs	**276**	10

Reorganization costs included non-recurring costs associated with the Company's corporate restructuring initiatives. For 2016, majority of the reorganization costs related to staff reductions.

Decommissioning Liabilities

The Company's decommissioning liabilities at March 31, 2016 were $68.1 million (December 31, 2015 - $70.5 million) to provide for future remediation, abandonment and reclamation of the Lone Pine's oil and gas properties. There were no changes in estimates for the three months ended March 31, 2016.

The undiscounted decommissioning obligation liabilities, based on inflation rate at 1.7%, are estimated at $109.4 million. While the provision for decommissioning liabilities is based on management's best estimates of future costs, discount rates, timing and the economic lives of the assets, there is uncertainty regarding the amount and timing of incurring these costs.

Capital Resources and Liquidity

Capital Resources

Working Capital

At March 31, 2016, Lone Pine had working capital of $6.2 million (December 31, 2015 - $18.3 million), including $4.2 million (December 31, 2015 - $13.0 million) cash and cash equivalents on hand.

Amended Credit Facility

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.

Shareholders' Equity

At March 31, 2016, Lone Pine had combined common share capital of $73.9 million (December 31, 2015 – $73.9 million).

Preferred Shares

At March 31, 2016, preferred shares balance was $159.5 million (December 31, 2015 – $166.2 million), with a separate conversion liability of $26.5 million (December 31, 2015 – $26.5 million). The $6.7 million decrease from December 31, 2015 was primarily due to the translation of the US dollar denominated preferred shares at a lower US to Canadian exchange rate partially offset by accretion recognized on the preferred shares.

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, the Amended Credit Facility, preferred shares and working capital. The Company has outlined its Capital Management policy in Note 19 of the Annual Financial Statements.

Lone Pine manages its liquidity risk through its capital management of cash, debt, equity and committed credit capacity along with its planned capital expenditure program. The Company has determined that its current obligations are adequately funded by current assets. With its cash on hand, available borrowing capacity, and cash flows from operations, Line Pine believes that there is sufficient liquidity to fund its capital program and other commitments.

Contractual Obligations and Commitments

Contractual obligations and commitments are outlined in Note 22 of the Annual Financial Statements. There were no significant changes during the first quarter of 2016 except as outlined below.

Lease Acquisition Capital Commitment

As of March 31, 2016, the Company has incurred $10.8 million (December 31, 2015 - $7.7 million) related to the lease acquisition capital commitment. Under the lease acquisition capital commitment, the Company is committed to annual capital expenditures as follows pursuant to the acquisition of 69,000 net undeveloped acres in the Wheatland area. The lease acquisition capital commitment is further described in Note 22 of the Annual Financial Statements.

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

Farm-in Arrangement Capital Commitment

As of March 31, 2016, the Company has incurred $5.8 million (December 31, 2015 - $2.3 million) related to the farm-in arrangement capital commitment. Under the farm-in arrangement capital commitment, the Company is committed to a minimum of $20 million of drilling and completion expenditures on farm-in lands pursuant to the farm-in and option agreement by December 31, 2016. The farm-in arrangement capital commitment is further described in Note 22 of the Annual Financial Statements.

Supplemental Information

Financial – Quarterly extracted information

($000)	**2016 Q1**	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2
Oil and natural gas revenue	**7,203**	8,783	9,191	11,591	9,770	16,323	26,061	38,176
Royalties	**(649)**	(746)	(575)	(323)	(546)	(1,949)	(3,341)	(3,794)
Unrealized (loss) gain on derivatives	**852**	(730)	4,118	(6,650)	(3,581)	25,043	10,648	(1,380)
Realized (loss) gain on derivatives	**3,585**	4,921	4,421	3,063	4,380	3,464	(6,409)	(1,935)
Revenues	**10,991**	12,228	17,155	7,681	10,023	42,881	26,959	31,067
Net earnings (loss)	**3,197**	(15,390)	(12,985)	(9,929)	(21,590)	(127,211)	(11,334)	(22,697)

The net earnings of $3.2 million in the first quarter of 2016 was primarily the result of unrealized foreign exchange gains of $10.7 million related to the translation of the US dollar denominated preferred share liability and realized gains on derivative instruments of $3.6 million.

The net loss of $15.4 million in the fourth quarter of 2015 was mainly due to impairment charges of $7.3 million on E&E assets and unrealized foreign exchange losses of $5.3 million related to the translation of the US dollar denominated preferred share liability.

The net loss of $13.0 million in the third quarter of 2015 was mainly due to declining production volume and an unrealized foreign exchange loss of $10.6 million related to the translation of the US dollar denominated preferred shares liability. In addition, an impairment loss of $2.6 million was recognized including $0.9 million against the Hayter CGU and the remainder against undeveloped E&E lands.

The net loss of $9.9 million in the second quarter was mainly attributable to lower production volume and $6.6 million unrealized loss on hedge instruments. Also, there was a $1.7 million impairment charge against certain E&E lands and pre-drill cost that Lone Pine no longer intends to explore in light of low oil prices. The Company also recognized $1.3 million of reorganization costs related to workforce reduction.

The net loss of $21.6 million in the first quarter of 2015 was mainly due to lower production volume and $11.9 million unrealized loss on foreign exchange related to the translation of the US dollar denominated preferred shares liability, due to the weakening of Canadian dollar relative to the US dollar. Oil and natural gas revenue was significantly lower than the prior periods, due to lower production volume and lower realized prices across all products.

The net loss of $127.2 million in the fourth quarter of 2014 was mainly due to the recognition of $136.2 million in impairment losses. Oil and natural gas revenue decreased in the fourth quarter as a result of the Deep Basin divestiture in the third quarter of 2014 and lower liquids prices. The decreases were offset by $28.5 million of gains on oil derivatives, resulting in an overall increase of revenues in the fourth quarter, compared with the prior quarters.

The net loss of $11.3 million in the third quarter of 2014 was due to lower volumes of production as a result of the Deep Basin sale, realizing a $6.2 million loss from terminating all natural gas hedges, incurring $2.9 million of reorganization costs upon staff reduction and recognizing a $6.1 million loss on extinguishment of the Term Facility. These items were partly offset by a higher operating netback, a $10.6 million unrealized gain on derivative instruments and a $1.7 million gain on sale of property and equipment.

The net loss of $22.7 million in the second quarter of 2014 was mainly due to a $26.3 million impairment loss against Deep Basin CGU E&E assets. Oil and natural gas revenue for the second quarter of 2014 was the highest, reflecting significantly higher commodity prices.

Changes in Accounting Policies

The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements. Lone Pine did not adopt any new accounting policies or standards during the first quarter of 2016.

There were no new or amended standards issued during the first three months of 2016 that are applicable to Lone Pine in future periods other than those disclosed in Note 3 of the Annual Financial Statements. A description of issued accounting pronouncements that will be adopted by the Company in future periods is also included in Note 3 to the annual financial statements. The Company is currently evaluating the impact of those new accounting pronouncements.

Operational and Other Risk Factors

Operational and Other Risk factors outlined in the Annual MD&A have remained unchanged during the first quarter of 2016.

Forward-Looking Statements

Certain statements and information in this MD&A may constitute forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond Lone Pine's control. All statements regarding the Company's strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "could," "believe," "anticipate," "intend," "plan," "estimate," "expect," "may," "continue," "predict," "potential," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements with respect to, among other things:

- estimates of the Company's oil and natural gas reserves;
- estimates of the Company's future oil, natural gas and NGL production, including estimates of any increases or decreases in the Company's production;
- estimates of future capital expenditures;
- estimates and judgements related to common shares and preferred shares valuations;
- the Company's future financial condition and results of operations;
- the Company's ability to meet its capital commitment pursuant to the Wheatland Acquisition and the Farm-In Arrangement;
- the Company's future revenues, cash flows and expenses;

- the Company's access to capital and expectations with respect to liquidity and capital resources;
- the Company's future business strategy and other plans and objectives for future operations;
- the Company's future development opportunities and production mix;
- the Company's outlook on oil, natural gas and NGL prices;
- the amount, nature and timing of future capital expenditures, including future development costs;
- the Company's ability to access the capital markets to fund capital and other expenditures;
- the Company's assessment of the Company's counterparty risk and the ability of the Company's counterparties to perform their future obligations; and
- the impact of federal, provincial, territorial and local political, legislative, regulatory and environmental developments in Canada.

Lone Pine believes the expectations and forecasts reflected in the Company's forward-looking statements are reasonable, but Lone Pine can give no assurance that they will prove to be correct. Readers are cautioned that these forward-looking statements can be affected by inaccurate assumptions and are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control, incident to the exploration for and development, production and sale of oil and natural gas. When considering forward-looking statements, you should keep in mind the assumptions, risk factors and other cautionary statements that include, among other things:

- the volatility of oil, natural gas and NGL prices, and the related differentials between realized prices and benchmark prices;
- a continuation of depressed natural gas prices;
- the availability of capital on economic terms to fund the Company's significant capital expenditures and acquisitions;
- the Company's ability to obtain adequate financing to pursue other business opportunities;
- the Company's ability to generate sufficient cash flow from operations or obtain adequate financing to fund the Company's capital expenditures and meet working capital needs;
- the Company's ability to replace and sustain production;
- a lack of available drilling and production equipment, and related services and labor;
- increases in costs of drilling, completion and production equipment and related services and labor;
- unsuccessful exploration and development drilling activities;
- regulatory and environmental risks associated with exploration, drilling and production activities;
- declines in the value of the Company's oil and natural gas properties, resulting in impairments;
- the adverse effects of changes in applicable tax, environmental and other regulatory legislation;
- a deterioration in the demand for the Company's products;
- the risks and uncertainties inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and the timing of expenditures;
- the risks of conducting exploratory drilling operations in new or emerging plays;
- intense competition with companies with greater access to capital and staffing resources;
- the risks of conducting operations in Canada and the impact of pricing differentials, fluctuations in foreign currency exchange rates and political developments on the financial results of the Company's operations; and
- the uncertainty related to the pending litigation against us.

Should one or more of the risks or uncertainties described above or elsewhere in this MD&A occur, or should underlying assumptions prove incorrect, Lone Pine's actual results and plans could differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A, and Lone Pine undertakes no obligation to update this information to reflect events or circumstances after the delivery of this MD&A. All forward-looking statements, expressed or implied, included in this MD&A are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral

forward-looking statements that Lone Pine may make or persons acting on the Company's behalf may issue.

Other Advisories

Volumetric Conversion

The oil and gas industry commonly expresses production volumes and reserves on a "barrel of oil equivalent" basis ("boe") whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants.

Throughout the MD&A, Lone Pine has used the 6:1 boe measure, which is the approximate energy equivalency of the two commodities at the burner tip. Boe does not represent a value equivalency at the wellhead nor at the plant gate, which is where Lone Pine sells its production volumes and therefore may be a misleading measure, particularly if used in isolation. Given that the value ration based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a 6:1 conversion may be misleading as an indication of value.

Non-IFRS Measures

Lone Pine uses terms within the MD&A that do not have a standardized prescribed meaning under IFRS and these measurements may not be comparable with the calculation of similar measurements used by other companies. The non-IFRS measures used in this report are summarized as follows:

Operating Netback

Operating netback is a non-IFRS measure commonly used in the oil and gas industry. This measurement assists management and investors to evaluate the specific operating performance at the oil and gas lease level. Operating netbacks included in this report were determined by taking (oil and gas revenues less royalties less operating costs) divided by gross working interest production. Operating netback, including realized commodity gains and losses, adjusts the operating netback for only realized gains and losses on derivative instruments.

EBITDAX

The Company monitors its capital structure based on the ratio of total debt to EBITDAX. The ratio provides a measure of the Company's ability to manage its debt levels under current operating conditions. "Total debt" and "EBITDAX" are terms corresponding to defined terms in the Company's credit facility agreement for the purpose of calculation of financial covenants. The Company also uses EBITDAX as a measure of its operating cash flows.

EBITDAX means net earnings before financing charges, foreign exchange gain (loss), E&E expense, income taxes, depreciation, depletion, amortization, other non-cash items of expense and non-recurring items. The following is a reconciliation of EBITDAX to the nearest IFRS measure, net earnings (loss) before income tax:

	Three Months Ended March 31	
($000s)	**2016**	2015
Net earnings (loss) before income tax	**3,197**	(21,590)
Add (deduct):		
Finance costs	**4,473**	3,830
(Gain) loss on foreign exchange	**(10,648)**	11,882
Reorganization costs	**276**	10
Share-based compensation	**92**	408
Loss on sale of properties	**—**	3
Exploration and evaluation expense	**26**	102
Depletion and depreciation	**4,658**	6,081
Unrealized (gain) loss on derivative instruments	**(852)**	3,581
Impairment (recovery) loss	**(125)**	1,236
EBITDAX	**1,097**	5,543

For purposes of calculating covenants under the 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.