Lone Pine Resources Inc.
Lone Pine Resources Canada Ltd.

Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2016

Dated: August 29, 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 and six months ended June 30, 2016. This MD&A is dated August 29, 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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
($000s except per unit amounts)	**2016**	2015	**2016**	2015
Financial				
Oil and natural gas revenue	**9,151**	11,591	**16,354**	21,361
EBITDAX[1]	**3,068**	7,923	**4,165**	13,467
EBITDAX excluding transaction costs[2]	**3,335**	7,923	**4,432**	13,467
Net loss	**(43,223)**	(9,929)	**(40,026)**	(31,519)
Net capital expenditures (dispositions)	**1,201**	9,869	**11,933**	11,169
Production Volumes				
Crude oil (bbls/d)	**1,784**	1,821	**1,834**	1,891
Natural gas (Mcf/d)	**9,733**	4,590	**8,715**	4,926
Natural gas liquids (bbls/d)	**134**	67	**129**	74
Total (boe/d)	**3,540**	2,653	**3,416**	2,786
% Liquids	**54%**	71%	**57%**	71%
Average Realized Prices				
Crude oil ($/bbl)	**47.62**	62.26	**40.43**	53.73
Natural gas ($/Mcf)	**1.37**	2.92	**1.58**	3.18
Natural gas liquids ($/bbl)	**17.22**	9.00	**14.82**	10.41
Total ($/boe)	**28.41**	48.01	**26.30**	42.37
Operating Netback ($/boe)[3]				
Realized price	**28.41**	48.01	**26.30**	42.37
Royalties	**(2.87)**	(1.34)	**(2.53)**	(1.72)
Operating costs	**(15.60)**	(13.63)	**(18.43)**	(16.13)
Operating netback	**9.94**	33.04	**5.34**	24.52

Second quarter 2016 highlights include:

- On June 23, 2016, Lone Pine and Arsenal entered into a definitive agreement to effect a business combination whereby Lone Pine and Arsenal will be brought together under a new parent corporation (the "Arrangement"), Prairie Provident Resources Inc. ("Prairie Provident"). The listing of Prairie Provident's shares on the Toronto Stock Exchange is a condition precedent of the transaction. Former Lone Pine securityholders will hold 77% of the fully diluted Prairie Provident shares, while former Arsenal securityholders will hold 23%. Lone Pine has received a 'highly confident' letter from its syndicate of lenders in respect of a new proposed credit agreement expected to be entered into concurrently with closing of the Arrangement (and subject to the closing of the Arrangement). The highly confident letter contemplates that the credit agreement will provide Lone Pine with senior secured revolving credit facilities up to $55 million.

- Production averaged 3,540 boe/day (54% liquids), a 33% increase compared to the second quarter of 2015 due to production additions from the 2015 and 2016 Wheatland drilling program, with 7 wells on production between December 2015 and the end of the second quarter 2016, resulting in an incremental second quarter production of approximately 1,380 boe/d. Production additions were offset by natural declines and the shut-in of certain uneconomic wells since May 2015.

- Operating netback after realized hedging gains was $17.82/boe for the second quarter of 2016, a decrease of $27.90/boe from the second quarter of 2015. The decrease was primarily due to a decrease of $19.60/boe in

[1,2,3] EBITDAX, EBITDAX excluding transaction costs and Operating Netback are non-IFRS measures and are defined in Other Advisories.

realized prices, combined with a $4.80 decrease in realized gains on derivative in instruments and a $1.97/boe increase in operating costs.

- EBITDAX was $3.1 million, a $4.9 million decrease as compared to the second 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 $1.2 million including $0.8 million on the Wheatland drilling program. At Wheatland, two of the three gross wells that were drilled in the first quarter of 2016 were tied-in and brought onstream in the second quarter of 2016.

- Impairment losses of $25.0 million were recorded related to E&E assets in the Quebec exploratory area.

- Net loss was $43.2 million, compared to a net loss of $9.9 million in the second quarter of 2015. The $33.3 million variance was largely due to the recognition of a $25.2 million impairment loss in the second quarter of 2016 versus a $1.7 million impairment loss in the second quarter of 2015, unrealized losses on derivative instruments in the second quarter of 2016 of $11.0 million versus unrealized losses of $6.7 million in the second quarter of 2015, as well as a $0.5 million foreign exchange loss in the second quarter of 2016 versus a $2.3 million foreign exchange gain in the second 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 $2.4 million (including $1.6 million of cash) and no borrowings.

- On June 17, 2016, the Company entered into an amended credit agreement with the same syndicate of lenders, under which (a) a $35 million syndicated facility and (b) a $10 million operating facility are available.

Year-to-date 2016 highlights include:

- Production averaged 3,416 boe/day (57% liquids), a 23% increase compared to 2015 year-to-date production due to production additions from the 2015 and 2016 Wheatland drilling program, with 7 wells on production between December 2015 and the end of the second quarter 2016, resulting in an incremental 2016 year-to-date production of approximately 1,200 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 $15.19/boe for 2016 year-to-date, a decrease of $24.09/boe from the same period in 2015. The decrease was primarily due to a decrease of $16.07/boe in realized prices, combined with a $4.91 decrease in realized gains on derivative in instruments and a $2.30/boe increase in operating costs.

- EBITDAX was $4.2 million, a $9.3 million decrease as compared to the six months ended June 30, 2015 primarily due to lower operating netback after realized hedging gains, partially offset by higher production and lower G&A expenses.

- Capital expenditures were $11.9 million including $9.0 million on the Wheatland drilling program and $2.1 million on the second phase of the Evi Waterflood project.

- Net loss of $40.0 million, compared to a net loss of $31.5 million in the six months ended June 30, 2015. During the first six months of 2016, the Company recognized $25.1 million of impairment losses, substantially related to E&E assets in the Quebec exploratory, partially offset by $10.1 million of unrealized foreign exchange gains related to US dollar denominated preferred shares. The 2015 year-to-date net loss included unrealized foreign exchange losses of $9.6 million and impairment losses of $2.9 million.

Arrangement Agreement

On June 23, 2016 Lone Pine and Arsenal Energy Inc. ("Arsenal"), an oil and natural gas exploration and production company listed on the Toronto Stock Exchange entered into a definitive agreement, which was subsequently amended on August 2, 2016, (the "Arrangement Agreement") to effect a business combination by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta). The Arrangement will bring together Lone Pine and Arsenal under a new parent corporation, now formed as Prairie Provident Resources Inc. ("Prairie Provident"), of which Lone Pine and Arsenal will become direct or indirect wholly-owned subsidiaries. Completion of the Arrangement will result in the shareholders of Lone Pine and Arsenal receiving common shares of Prairie Provident in substitution for their existing shares, with Prairie Provident in turn holding the combined undertakings of Lone Pine and Arsenal. Upon completion, former Lone Pine common shareholders, preferred shareholders and other stakeholders together will hold 77% of the fully-diluted Prairie Provident shares, and former Arsenal shareholders (including with respect to shares issued before closing in settlement of outstanding Arsenal incentive plan awards) will hold 23%. Completion of the Arrangement is subject to various conditions as set out in the Arrangement Agreement, including approval by the requisite majorities of Lone Pine Resources shareholders and LPR Canada securityholders at special meetings scheduled for September 8, 2016, approval of at least 66⅔% of votes cast of the Arsenal securityholders at a special meeting also scheduled for September 8, 2016, approval of the Court of Queen's Bench of Alberta pursuant to section 193 of the Business Corporations Act (Alberta), and approval by the Toronto Stock Exchange of the listing of the Prairie Provident common shares.

Outlook

Global oil prices improved during the second quarter of 2016 due to lower US production and unexpected supply disruptions due to Alberta wildfires and unrest in Nigeria. However, the global supply and demand imbalance remains. In July 2016, oil prices have weakened after the disrupted global production returned to the market and in the wake of the increase in oil rig count that has created oversupply concerns. Oil prices have rallied in August due to a resurgence of OPEC discussions of supply caps. In terms of natural gas prices, elevated local storage inventories and increased competition for downstream market access have led AECO prices structurally lower over the course of the last number of quarters. Subsequent to the second quarter of 2016, AECO prices have rebounded due to seasonal demand, but then have fallen due to TCPL outages that have locked additional supply within the province. The volatile commodity pricing environment has caused the industry significant uncertainties around cash flows and economics of development programs.

Despite the volatile price movements, Lone Pine has stayed focus on its organic growth plan and continued with its 2016 Wheatland drilling program, which shows positive economics in the current commodity pricing environment. Lone Pine's robust hedging program provides the Company the ability to stay the course. In addition to organic growth, Lone Pine has pursued the Arrangement with Arsenal which is anticipated to provide various benefits, including access to capital, production and development plays that will further strengthen Lone Pine's position for growth and create shareholders' value.

Compared to Lone Pine's original guidance provided in the Annual MD&A, capital spending for 2016 remains the same at $32.7 million. Without adjusting for the Arrangement, annual production guidance remains around 3,500 boe/d. EBITDAX, excluding transaction costs, for the year of 2016 is expected to be in the range of $12 million to $13 million, generally in line with the original guidance. 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.

Upon the closing of the Arrangement, production is estimated to be approximately 4,000 boe/d. Fourth quarter 2016 EBITDAX, excluding transaction costs, is estimated to be approximately $5 million to $6 million.

Results of Operations

Production

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	**2016**	2015
Crude oil (bbls/d)	**1,784**	1,821	**1,834**	1,891
Natural gas (Mcf/d)	**9,733**	4,590	**8,715**	4,926
Natural gas liquids (bbls/d)	**134**	67	**129**	74
Total (boe/d)	**3,540**	2,653	**3,416**	2,786
Liquids Weighting	**54%**	71%	**57%**	71%

Lone Pine's production for the three and six months ended June 30, 2016 increased by 33% and 23%, respectively, compared to the corresponding periods in 2015. The increases were 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 June 30, 2016, all of the 7 wells drilled were on production, with the final 2 wells coming on production in the second quarter of 2016, resulting in an incremental production for the three and six months ended June 30, 2016 of approximately 1,380 boe/d and 1,200 boe/d, respectively. 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 the three and six months ended June 30, 2015 was primarily related to production in the Wheatland area, which has a lower liquids-weighting than the remaining assets.

Revenue

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per unit amounts)	**2016**	2015	**2016**	2015
Revenue				
Crude oil	**7,731**	10,318	**13,496**	18,388
Natural gas	**1,210**	1,218	**2,510**	2,834
Natural gas liquids	**210**	55	**348**	139
Oil and natural gas revenue	**9,151**	11,591	**16,354**	21,361
Average Realized Prices				
Crude oil ($/bbl)	**47.62**	62.26	**40.43**	53.73
Natural gas ($/Mcf)	**1.37**	2.92	**1.58**	3.18
Natural gas liquids ($/bbl)	**17.22**	9.00	**14.82**	10.41
Total ($/boe)	**28.41**	48.01	**26.30**	42.37
Benchmark Prices				
Crude oil - WTI ($/bbl)	**58.78**	71.17	**52.37**	65.75
Crude oil - Edmonton Par ($/bbl)	**54.27**	67.12	**47.26**	59.14
Natural gas - AECO daily index - 5A ($/Mcf)	**1.40**	2.66	**1.61**	2.70
Exchange rate - US$/CDN$	**0.78**	0.81	**0.75**	0.81

Lone Pine's second quarter 2016 revenue decreased by 21% or $2.4 million from the second quarter of 2015. The 25% decrease in crude oil revenue and the 1% decrease in natural gas revenue incorporate lower realized prices which dropped by 24% and 53% respectively. The lower realized prices reflected declines in benchmark prices. The decrease in realized crude oil prices were compounded by a slight decrease in production, while the declines in realized natural gas prices were substantially offset by increases in production. The decrease in the overall average realized prices of 41% was also due to a lower liquids-weighted production mix in 2016 than in 2015.

On a year-to-date basis, revenue decreased by 23% or $5.0 million for the six months ended June 30, 2016 compared against the same period in 2015. The 27% decrease in crude oil revenue and the 11% decrease in natural gas revenue incorporate lower realized prices which dropped by 25% and 50% respectively. The lower realized prices reflected declines in benchmark prices. The decrease in realized crude oil prices were compounded by a slight decrease in production, while the declines in realized natural gas prices were offset increases in production. The decrease in the overall average realized prices of 38% was also due to a lower liquids-weighted production mix in 2016 than in 2015.

Royalties

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Royalties	**924**	323	**1,573**	869
Per boe	**2.87**	1.34	**2.53**	1.72
Percentage of revenue	**10.1%**	2.8%	**9.6%**	4.1%

Crown royalties 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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
($000s)	**2016**	2015	**2016**	2015
Realized gain on derivatives	**2,539**	3,063	**6,124**	7,443
Unrealized loss on derivatives	**(10,959)**	(6,650)	**(10,107)**	(10,231)
Total loss on derivatives	**(8,420)**	(3,587)	**(3,983)**	(2,788)
Per boe				
Realized gain on derivatives	**7.88**	12.68	**9.85**	14.76
Unrealized loss on derivatives	**(34.02)**	(27.55)	**(16.26)**	(20.29)
Total loss on derivatives	**(26.14)**	(14.86)	**(6.41)**	(5.53)

As of June 30, 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	July 1, 2016 – December 31, 2016	CDN$ WTI	$	91.19	Swap
Light Oil Differential	1,000 bbls/d	July 1, 2016 – December 31, 2016	CDN$ MSW[4]	$	-5.35	Swap
Natural Gas	4,300 GJ/d	July 1, 2016 – December 31, 2016	AECO 7A Monthly Index	$	2.37	Swap
Oil	350 bbls/d	July 1, 2016 – December 31, 2016	CDN$ WTI	$	58.00/ 67.50	Collar
Oil	250 bbls/d	July 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[5]	$	-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	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	Call Option
Oil	800 bbls/d	January 1, 2018 – December 31, 2018	CDN$ WTI	$	58.00/ 67.50	Collar

All derivatives contracts were entered with Lone Pine's credit facility lenders to minimize the need to post any collateral.

Operating Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Lease operating expense	**3,286**	3,098	**8,160**	6,927
Transportation and processing	**1,310**	(171)	**2,430**	203
Production and property taxes	**430**	363	**866**	1,005
Total operating expenses	**5,026**	3,290	**11,456**	8,135
Per boe	**15.60**	13.63	**18.43**	16.13

Lease operating expense for the second quarter of 2016 increased by 6% from the same period in 2015 primarily due to lease operating costs incurred related to Wheatland production partially offset by improved run rates and cost reduction efforts. Lease operating expenses for the six months ended June 30, 2016 increased by 18% from the same period in 2015. In addition to the factors described above, the year-to-date costs include 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 cost of site clean-up and remediation was approximately $1.0 million and was recognized within lease operating expense in the first quarter of 2016. The Company has filed for insurance coverage for the incident.

Transportation and processing expense for the three and six months ended June 30, 2016 increased by $1.5 million and $2.2 million respectively 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 three and six months ended June 30, 2015 included certain positive cost recovery adjustments that were received in the quarter relating to prior production periods.

[4,5] Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI

Operating expenses on a per boe basis were higher for the second quarter of 2016 as compared to the same period in 2015 primarily as a result of positive cost recovery adjustments that were recorded in the second quarter of 2015. Excluding this factor, operating expenses would have decreased by approximately 12% from the same period in the prior year on a per boe basis. On a per boe basis operating expenses were higher for the six months ended June 30, 2016 as compared to the same period in 2015 as a result of the factors described above as well as due to costs related to the Wheatland wellhead pipe breach incident.

Operating Netback

	Three Months Ended June 30,		Six Months Ended June 30,	
($ per boe)	**2016**	2015	**2016**	2015
Revenue	**28.41**	48.01	**26.30**	42.37
Royalties	**(2.87)**	(1.34)	**(2.53)**	(1.72)
Operating costs	**(15.60)**	(13.63)	**(18.43)**	(16.13)
Operating netback	**9.94**	33.04	**5.34**	24.52
Realized gains (losses) on derivative instruments	**7.88**	12.68	**9.85**	14.76
Operating netback, after realized gains (losses) on derivative instruments	**17.82**	45.72	**15.19**	39.28

Lone Pine's operating netback after realized hedging gains decreased by $27.90/boe and $24.09/boe, respectively, for the second quarter and the first six months of 2016, compared to the corresponding periods in 2015. Decreases in realized revenue were compounded by increases in operating costs and royalties, and decreases in realized gains on derivative instruments.

General and Administrative Expenses ("G&A")

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Gross G&A expenses	**2,743**	3,410	**5,824**	7,104
Less amounts capitalized	**(293)**	(42)	**(670)**	(110)
Net G&A expenses	**2,450**	3,368	**5,154**	6,994
Per boe	**7.61**	13.95	**8.29**	13.87

For the three and six months ended June 30, 2015, gross G&A decreased by $0.9 million and $1.8 million compared to the same periods in 2015. The decreases primarily relate to cost reduction efforts and lower stock based compensation expenses.

The increase in capitalized G&A for the three and six months ended June 30, 2016 by $0.2 million and $0.6 million, respectively, from the corresponding periods in 2015 correspond to the increase in the level of capital activity in 2016.

Finance Costs

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Interest expense	**184**	241	**362**	492
Accretion expenses	**4,167**	3,714	**8,462**	7,293
Total finance cost	**4,351**	3,955	**8,824**	7,785
Per boe	**13.51**	16.38	**14.19**	15.44

There were no borrowings outstanding during the three and six months ended June 30, 2016 and 2015. The interest expense incurred in the periods presented includes the amortization of deferred financing charges, standby fees and interest incurred on outstanding letters of credit. Interest expense decreased by 24% and 26% in the three and six months ended June 30, 2016 respectively 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 and six months ended June 30, 2016 was 2.0% (2015 – 2.5%).

Accretion and financing charges are non-cash expenses. During the second quarter and first six months of 2016, the Company recognized $3.9 million and $7.9 million respectively of accretion charges on the preferred shares (2015 – $3.4 million and $6.6 million respectively). The remaining accretion charges related to the decommissioning liabilities.

Gain (Loss) on Foreign Exchange

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2016**	2015	**2016**	2015
Realized gain (loss) on foreign exchange	**(2)**	1	**71**	(1)
Unrealized gain (loss) on foreign exchange	**(504)**	2,287	**10,071**	(9,593)
Gain (loss) on foreign exchange	**(506)**	2,288	**10,142**	(9,594)

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

Exploration and Evaluation Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Exploration and evaluation expense	**8**	40	**34**	142
Per boe	**0.02**	0.17	**0.06**	0.28

Depletion and Depreciation

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
Depletion and depreciation	**5,043**	6,042	**9,701**	12,124
Per boe	**15.65**	25.03	**15.60**	24.05

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 three and six months ended June 30, 2016 from the comparable periods in 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 Loss

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s, except per boe)	**2016**	2015	**2016**	2015
E&E Impairment	**24,990**	1,741	**24,990**	1,741
P&D Impairment – decommissioning asset	**—**	—	**—**	1,236
P&D inventory impairment	**200**	—	**200**	—
Inventory recovery	**—**	(38)	**(125)**	(38)
Total impairment loss	**25,190**	1,703	**25,065**	2,939

Second quarter and year-to-date 2016 E&E impairment losses were incurred on assets in the Quebec exploratory area as a result of a shift in management development priorities, as a result of successful drilling in the Wheatland area, 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.

P&D inventory impairment of $0.2 million in the second quarter and year-to-date 2016 relates to the write down of certain surplus equipment.

Year-to-date 2016 impairment loss includes an impairment recovery of $0.1 million recorded in the first quarter of 2016 as the result of an increase in the net realizable value of inventory.

In the second quarter of 2015, there was a $1.7 million impairment loss recognized related to the write-off of certain undeveloped lands and pre-drill cost that the Company no longer intends to explore in light of low commodity prices. In the first quarter of 2015, changes in estimated decommissioning liabilities of certain asset with zero carrying value resulted in an impairment charge of $1.2 million.

Capital Expenditures[6]

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2016**	2015	**2016**	2015
Drilling and completion	**7**	255	**6,064**	666
Equipment, facilities and pipelines	**819**	240	**4,979**	901
Land	**31**	9,437	**78**	9,646
Capitalized overhead and other	**364**	87	**832**	106
Total expenditures	**1,221**	10,019	**11,953**	11,319
Proceeds from disposals of property	**(20)**	(150)	**(20)**	(150)
Total – net	**1,201**	9,869	**11,933**	11,169

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

Capital spending in the second quarter of 2015 was primarily comprised of the acquisition of mineral leases in the Wheatland area for $9.3 million. Year-to-date 2015 capital expenditures additionally incorporated a focus on capital activities in the Evi area, including electrification projects and well recompletion to enhance oil recovery.

Due to higher level of development activities in the second quarter and year-to-date 2016, capitalized overhead costs were higher than in the respective periods in 2015.

Reorganization Costs

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2016**	2015	**2016**	2015
Salary and benefits – terminations	**116**	1,126	**382**	1,126
Share-based compensation - terminations	**—**	176	**—**	176
Professional fees	**—**	5	**10**	15
Amortization and other finance costs	**—**	(2)	**—**	(2)
Total reorganization costs	**116**	1,305	**392**	1,315

Reorganization costs are non-recurring costs associated with the Company's corporate restructuring activities. For 2016 and 2015, the majority of the costs related to staff reductions.

Transaction Costs

Transaction costs of $0.3 million were incurred in the three and six months ended June 30, 2016 related to the Arrangement. Transaction costs included legal and professional fees.

Decommissioning Liabilities

Lone Pine's decommissioning liabilities at June 30, 2016 were $69.1 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 or six months ended June 30, 2016.

[6] Capital expenditures include expenditures on E&E assets.

The undiscounted decommissioning obligation liabilities, based on an inflation rate of 1.7%, are estimated at approximately $110.3 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 June 30, 2016, Lone Pine had working capital of $2.4 million (December 31, 2015 - $18.3 million), including $1.6 million (December 31, 2015 - $13.0 million) cash and cash equivalents.

Amended Credit Facility

As at both June 30, 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 June 30, 2016 (December 31, 2015 - $4.5 million).

On June 17, 2016, 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 $35 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 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 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 June 30, 2016, the Company was in compliance with all covenants under the Amended Credit Facility.

Lone Pine has received a 'highly confident' letter from its syndicate of lenders in respect of a new proposed credit agreement expected to be entered into concurrently with closing of the Arrangement (and subject to the closing of the Arrangement). The highly confident letter contemplates that the credit agreement will provide Lone Pine with senior secured revolving credit facilities up to $55 million.

Shareholders' Equity

At June 30, 2016, Lone Pine had combined common share capital of $73.9 million (December 31, 2015 – $73.9 million).

Preferred Shares

At June 30, 2016, preferred shares balance was $163.9 million (December 31, 2015 – $166.2 million), with a separate conversion liability of $26.5 million (December 31, 2015 – $26.5 million). The decrease was primarily due to the translation of the US$ 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 Credit Facility, preferred shares and working capital. The Company has outlined its Capital Management policy in Note 19 of the Annual Financial Statements.

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 six months of 2016 except as outlined below.

Lease Acquisition Capital Commitment

As of June 30, 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 capital commitment for the year ending July 1, 2016 of $10.0 million has been met and additional spending of $0.8 million will be applied towards the July 1, 2017 capital commitment of $15.0 million. The lease acquisition capital commitment is further described in Note 22 of the Annual Financial Statements.

Commitment Period Ending	Capital Commitment	Incurred to June 30, 2016	Remaining Commitment
($000s)			
July 1, 2016	10,000	10,000	–
July 1, 2017	15,000	830	14,170
July 1, 2018	20,000	–	20,000

Farm-in Arrangement Capital Commitment

As of June 30, 2016, $5.8 million has been incurred (December 31, 2015 - $2.3 million) related to the farm-in arrangement capital commitment. Under the farm-in arrangement capital commitment, 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. The farm-in arrangement capital commitment is further described in Note 22 of the Annual Financial Statements. In the second quarter of 2016, the farm-in and option agreement was amended to allow more flexibility of 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.

Supplemental Information

Financial – Quarterly extracted information

($000)	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3
Oil and natural gas revenue	**9,151**	7,203	8,783	9,191	11,591	9,770	16,323	26,061
Royalties	**(924)**	(649)	(746)	(575)	(323)	(546)	(1,949)	(3,341)
Unrealized (loss) gain on derivatives	**(10,959)**	852	(730)	4,118	(6,650)	(3,581)	25,043	10,648
Realized gain (loss) on derivatives	**2,539**	3,585	4,921	4,421	3,063	4,380	3,464	(6,409)
Revenue net of realized and unrealized gains (losses) on derivative instruments	**(193)**	10,991	12,228	17,155	7,681	10,023	42,881	26,959
Net earnings (loss)	**(43,223)**	3,197	(15,390)	(12,985)	(9,929)	(21,590)	(127,211)	(11,334)

The net loss of $43.2 million in the second quarter of 2016 was mainly due to impairment charges of $25.2 million primarily related to E&E assets and unrealized losses on derivative instruments of $11.0 million.

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.

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 two quarters of 2016.

There were no new or amended standards issued during the first six months of 2016 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 can be found in Note 3 of the Annual Financial Statement and Note 3. 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 six months of 2016. Readers are also advised to refer to various "Risk Factors" sections within the Joint Management Information Circular dated August 5, 2016 (available at www.lonepineresources.com) which provide comprehensive discussion of a number of risk exposures to Lone Pine. In addition to operational and financial risks, there are additional risk factors relating to the Arrangement, the activities of Prairie Provident and the ownership of Prairie Provident shares following completion of the Arrangement.

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 (loss) and gain, 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 the 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.

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.

The following is a reconciliation of EBITDAX to the nearest IFRS measure, net earnings (loss) before income tax:

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2016**	2015	**2016**	2015
Net earnings (loss) before income tax	**(43,223)**	(9,929)	**(40,026)**	(31,519)
Add (deduct):				
Finance costs	**4,351**	3,955	**8,824**	7,785
Loss (gain) on foreign exchange	**506**	(2,288)	**(10,142)**	9,594
Reorganization costs[7]	**116**	1,305	**392**	1,315
Share-based compensation	**45**	253	**137**	661
Loss on sale of properties	**73**	192	**73**	195
Exploration and evaluation expense	**8**	40	**34**	142
Depletion and depreciation	**5,043**	6,042	**9,701**	12,124
Impairment loss	**25,190**	1,703	**25,065**	2,939
Unrealized loss on derivative instruments	**10,959**	6,650	**10,107**	10,231
EBITDAX	**3,068**	7,923	**4,165**	13,467
Transaction costs	**267**	—	**267**	—
EBITDAX excluding transaction costs	**3,335**	7,923	**4,432**	13,467

EBITDAX as defined in the credit facility agreement includes the impact of transaction costs. However, as transaction costs related to the Arrangement are non-recurring costs, EBITDAX excluding transaction costs has been calculated in addition to EBITDAX as a meaningful measure of continuing operating cash flows.

[7] Reorganization cost includes share-based compensation related to terminations.