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Court                                COURT OF QUEEN'S BENCH OF ALBERTA

Judicial Centre                CALGARY

Applicants                        IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, as amended  
IN THE MATTER OF THE BUSINESS CORPORATIONS ACT,  
R.S.A. 2000, c. B-9, as amended  
AND IN THE MATTER OF THE COMPROMISE OR  
ARRANGEMENT OF LONE PINE RESOURCES CANADA LTD.,  
LONE PINE RESOURCES INC., LONE PINE RESOURCES  
(HOLDINGS) INC., WISER DELAWARE LLC and WISER OIL  
DELAWARE, LLC

**MONITOR'S SIXTH REPORT TO COURT SUBMITTED BY  
PRICEWATERHOUSECOOPERS INC.  
DATED DECEMBER 10, 2013**

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**LONE PINE RESOURCES, ET AL**  
**MONITOR’S SIXTH REPORT TO COURT**  
**DECEMBER 10, 2013**

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**1. INTRODUCTION**

- 1.1 On September 25, 2013, on the application of Lone Pine Resources Canada Ltd. (“**LPRC**”), Lone Pine Resources Inc. (“**LPRI**”), Lone Pine Resources (Holdings) Inc. (“**LPR Holdings**”), Wiser Delaware LLC (“**Wiser Delaware**”) and Wiser Oil Delaware, LLC (“**Wiser Oil**”) (collectively referred to as “**Lone Pine Resources**” or the “**Companies**”), the Court of Queen’s Bench of Alberta (the “**Court**”) made an order (the “**Initial Order**”) granting Lone Pine Resources protection from its creditors pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA**”). Under the Initial Order, PricewaterhouseCoopers Inc. (“**PwC**”) was appointed monitor of the Companies (the “**Monitor**”).
- 1.2 On October 18, 2013, the Companies sought and obtained an order granting recognition of these proceedings as a foreign main proceeding (the “**Recognition Order**”) from the United States Bankruptcy Court for the District of Delaware (the “**US Court**”) pursuant to Chapter 15 of the US Bankruptcy Code. Among other things, the Recognition Order recognises and enforces the CCAA Initial Order including any extensions, amendments, or modifications thereto, on a final basis, declares Canada to be the centre of main interest of each of the Companies, and recognises the CCAA Proceedings as a foreign main proceeding.
- 1.3 Pursuant to the Initial Order and the November 27, 2013 order of the Court, among other things, all creditors are stayed from commencing or continuing any proceedings against Lone Pine Resources until, and including, January 10, 2013.
- 1.4 The Monitor has filed five reports to date. Additionally, a pre-filing report dated September 24, 2013 was provided to the Court by PwC as proposed Monitor. Copies of the filed reports are available on the Monitor’s website [www.pwc.com/car-lpr](http://www.pwc.com/car-lpr). All prescribed materials filed by Lone Pine Resources and the Monitor relating to this CCAA proceeding are available to creditors and other interested parties in electronic format on the Monitor’s website. The Monitor will make regular updates to the website containing documents filed with the Court not otherwise sealed.

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- 1.5 This is the Monitor's sixth report to Court (the "**Sixth Report**") which has been prepared in connection with the Companies' Plan and the Monitor's opinion thereon. The Purpose of this Sixth Report is to:
- 1.5.1 Inform this Court of the Companies' proposed Plan of Compromise and Arrangement dated December 6, 2013 (the "**Plan**") and estimated distributions thereunder;
  - 1.5.2 Provide the Court with a detailed analysis of the value of the Companies' various oil and gas properties and certain potential contingent claims (the latter potential contingent claims being the subject of a Confidential Supplement (the "**Confidential Supplement**") to the Sixth Report);
  - 1.5.3 Provide the Monitor's views on the sales process run by the Companies' Financial Advisor (as hereinafter defined); and
  - 1.5.4 Provide the Monitor's assessment of the Plan and its recommendations thereon.
- 1.6 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars. Capitalized terms, not otherwise defined herein, are as defined in the Companies' application materials for the Initial Application and the Comeback Application, including the Affidavit No. 4 of Tim S. Granger (the "**Fourth Granger Affidavit**"), the Meeting Order, the Plan, and the Monitor's reports filed to date.
- 1.7 Certain information contained in this report is based on information obtained from the Companies' books and records and discussions with management and staff. The Monitor has not independently verified the accuracy or completeness of such information; accordingly the Monitor does not express an opinion thereon.

## 2. BACKGROUND TO THE CCAA FILING

- 2.1 As detailed in the First Granger Affidavit and the Monitor's Second Report, sustained declines in natural gas prices, drilling/operational challenges and limited access to liquidity are the primary causes of Lone Pine Resources' financial difficulty and insolvency. Liquidity constraints and limited access to capital have also restricted the Companies' drilling/capital programs, negatively impacting development of its various oil and gas properties.

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- 2.2 In the past year, Lone Pine Resources sold certain of its non-core assets and used the proceeds to reduce amounts owing under the Facility. These asset sales, combined with weaker commodity prices, resulted in reductions to the borrowing base under the Facility (which was close to fully drawn) from \$325 million in November 2012 to \$185 million by April 2013.
- 2.3 Continued liquidity constraints during the summer of 2013 resulted in LPRC not making a \$10.1 million semi-annual interest payment in respect of the Senior Notes that was due on August 15, 2013. Additionally, LPRC did not make the interest payment within the 30 day cure period, which resulted in an event of default under the Senior Notes and also triggered a cross-default under the Facility.
- 2.4 These issues persist today and are significant factors in limiting the restructuring options available to Lone Pine Resources and the recoveries of creditors.

### 3. STATUS OF THE CLAIMS PROCEDURE

- 3.1 On October 9, 2013, the Companies applied to the Court seeking an order (the “**Claims Procedure Order**”) to establish a procedure (the “**Claims Procedure**”) for determining the claims of creditors against the Companies. The Court granted the Claims Procedure Order which set a bar date for the filing of Proofs of Claim of 5:00PM Mountain Standard Time on November 13, 2013.
- 3.2 Subsequent to the granting of the Claims Procedure Order, on November 8, 2013, the Court granted an order (the “**Claims Bar Date Extension Order**”), which, among other things, extended the Claims Bar Date to 5:00PM Mountain Standard Time on November 27, 2013 (the “**Claims Bar Date**”).

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- 3.3 Set out below is a summary of the admitted claims and claims still being reviewed as at December 9, 2013.

(\$000's)	Admitted Claims		Disputed Claims		Claims Being Reviewed		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
<b>Secured Claims</b>								
Syndicate	4	188,383			-	-	4	188,383
Other			6	1,984	-	-	6	1,984
<b>Total Secured claims</b>	<b>4</b>	<b>188,383</b>	<b>6</b>	<b>1,984</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>190,367</b>
<b>Unsecured Claims</b>								
Trade creditors	148	6,554	64	1,562	-	-	212	8,116
Noteholders	1	213,681	-	-	-	-	1	213,681
<b>Total Unsecured Claims</b>	<b>149</b>	<b>220,235</b>	<b>64</b>	<b>1,562</b>	<b>-</b>	<b>-</b>	<b>213</b>	<b>221,797</b>
Other Claims					65	757,406	65	757,406
<b>Total Claims</b>	<b>153</b>	<b>408,618</b>	<b>70</b>	<b>3,546</b>	<b>65</b>	<b>757,406</b>	<b>288</b>	<b>1,169,570</b>

- 3.4 The Monitor notes that the majority of claims in the 'Disputed Claims' category are claims by Unaffected Creditors per the Claims Procedure Order, primarily from Joint Venture partners and Critical Suppliers. As of December 9, 2013, the Monitor has received five Notices of Objection for disputed claims totalling \$16,418.18. Additionally, the Monitor notes that the majority of the claims in the 'Claims Being Reviewed' category appear to be equity claims by shareholders and claims seeking indemnity regarding potential shareholder claims.
- 3.5 The Monitor and the Companies will continue to review all Proofs of Claim and, in accordance with the Claims Procedure Order, will respond to all Proofs of Claim by no later than December 13, 2013. The Monitor or the Companies will issue a notice of revision or disallowance relative to claims that will ultimately be entitled to vote upon the Companies' CCAA plan of compromise and arrangement for any Proofs of Claim where the amounts claimed are not in agreement with the Companies' books and records or the amount claimed is not adequately supported.
- 3.6 In light of the provisions of the Plan and the matters addressed in this Sixth Report, which support the conclusion that there is no value attributable to the Company's shareholders, Proofs of Claim filed in respect of "equity claims" under the CCAA will not be determined pursuant to the Claims Procedure but rather, will be sought to be

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discharged in connection with the relief to be sought by the Companies on the Sanction Hearing.

#### **4. REFINANCING**

- 4.1 The Monitor has been advised that as part of its restructuring initiatives, Lone Pine Resources has, over the past six months, explored numerous refinancing options, but has been unable to secure a refinancing package that would provide it with sufficient liquidity to pursue its capital programs while satisfying its secured and unsecured creditors. In June 2013, Lone Pine Resources engaged an advisor to assist the Companies with their efforts to obtain a second lien secured credit facility to refinance the existing Facility. The Companies discussed the refinancing with approximately ten prospective lenders and feedback received indicated that long-term sustainable refinancing would require a significant reduction in the outstanding principal of the Senior Notes.
- 4.2 The Syndicate of secured lenders has been supportive of Lone Pine Resources while it attempted to obtain refinancing prior to the CCAA filing and has continued to be supportive of the Companies' proposed restructuring under the CCAA. However, the Syndicate has stated that if the Companies' proposed restructuring is not completed by January 31, 2014, the Syndicate will seek to require that the Companies immediately commence a liquidation process for their assets.
- 4.3 As discussed in the Monitor's Fourth Report, the Companies have obtained a commitment letter for a senior secured asset backed lending facility in the amount of up to \$130 million (the "ABL Commitment Letter") from a new syndicate of lenders. The refinancing proposal has numerous conditions, including the successful completion of the proposed CCAA restructuring by January 31, 2014 (which includes a conversion of the Senior Notes into equity and the cancellation of all existing equity interests) and an injection of at least \$110 million of new cash from the issuance of new share capital and/or non-core asset dispositions. The ABL Commitment Letter was approved by order of Justice Yamauchi granted in these proceedings on November 27, 2013.
- 4.4 The Companies have advised the Monitor that they have thoroughly explored all feasible refinancing options and that the current \$130 million refinancing proposal outlined in the ABL Commitment Letter is, on balance, the best available option. As discussed in the Monitor's Fourth Report, the Monitor is supportive of the Companies entering into the ABL Commitment Letter and continuing negotiations toward definitive loan documents.

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**5. SUMMARY OF PLAN OF ARRANGEMENT**

- 5.1 To assist readers in understanding and evaluating the Plan, the Monitor has reproduced its summary of the Plan from the Monitor's Fifth Report below.
  
- 5.1 Generally, the Plan would effect a recapitalization of Lone Pine Resources by the unsecured creditors and conversion into equity of the majority of unsecured creditors (the "**Affected Unsecured Creditors**") holding Affected Unsecured Claims (as defined in the Plan), as well as the cancellation of all existing equity interests in the Companies, including the interest held by stockholders of LPRI. A summary of the key elements of the Plan is set out below.
  
- 5.2 An information circular (the "**Information Circular**") has been prepared by Lone Pine Resources, which explains in detail, among other things, the voting process in respect of the Plan and the transactions and compromises to be affected under the Plan. A copy of the Information Circular will be attached as Schedule A to the Meeting Order.

**Creditor Classes for Affected Unsecured Creditors**

- 5.3 For the purpose of voting on the Plan, a single class of all Affected Unsecured Claims of each of the five Lone Pine Resources entities will be formed.
  
- 5.4 Each class of Affected Unsecured Creditors will vote on the approval of the Plan for each respective Company. Plan approval for each Company will require that a majority in number (greater than 50%) and two thirds in value of each class of Affected Unsecured Creditors votes, or is deemed to vote, in favour of the Plan.
  
- 5.5 The following table outlines the five Affected Unsecured Claim classes:

<u>Affected Unsecured Creditors Class</u>	<u>Affected Unsecured Claims</u>
LPRC Class.....	Affected Unsecured Claims against LPRC
LPR Holdings Class.....	Affected Unsecured Claims against LPR Holdings
LPRI Class.....	Affected Unsecured Claims against LPRI
Wiser Oil Class.....	Affected Unsecured Claims against Wiser Oil
Wiser Delaware Class.....	Affected Unsecured Claims against Wiser Delaware



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- 5.6 The Affected Unsecured Claims under the Plan include all Affected Claims, as determined through the Claims Procedure, including the Claims of Noteholders in respect of the Senior Notes.
- 5.7 Noteholders shall be permitted to vote in respect of all five Affected Unsecured Creditor Classes, as the Senior Notes were either issued or guaranteed by each of the Companies, but each Affected Unsecured Creditor will receive only a single distribution under the Plan.
- 5.8 Pursuant to the CCAA, Equity Claimants shall not be entitled to vote on the Plan or receive any distributions thereunder.

#### **Unaffected Creditors**

- 5.9 The Plan does not affect or compromise the claims and rights of Unaffected Creditors, as Unaffected Creditors are expected to be paid in the normal course. As a result, Unaffected Creditors will not receive any consideration or distributions under the Plan and shall not be entitled to vote on the Plan at the Meetings in respect of their Unaffected Claims. The Unaffected Claims include, among other things, the following:
- 5.9.1 Claims secured by the CCAA Charges (including Claims of Critical Suppliers);
  - 5.9.2 Any part of a Claim arising from a cause of action for which the Company is covered by insurance, but only to the extent of such coverage;
  - 5.9.3 Post-Filing Trade Payables;
  - 5.9.4 Claims of Joint Venture Partners;
  - 5.9.5 Claims of the Syndicate; and
  - 5.9.6 Claims in respect of an Employee Amount (other than in respect of Options).

#### **Treatment of Affected Unsecured Claims**

- 5.10 The Plan contemplates that, in consideration for the distributions set out below, all Affected Unsecured Claims shall be fully, finally, irrevocably and forever compromised, settled, released, discharged, extinguished, cancelled and barred.

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- 5.11 The Plan provides that Affected Unsecured Creditors holding an Affected Unsecured Claims equal to or less than \$10,000 shall be considered Cash Pool Creditors (the “**Cash Pool Creditors**”) for purposes of distributions under the Plan.
- 5.12 Affected Unsecured Creditors holding an Affected Unsecured Claim in excess of \$10,000 may elect to reduce their Affected Unsecured Claim to \$10,000 by making a Cash Election with the Monitor in accordance with the Meeting Order, in which case they shall receive the same distribution (pro-rated, as described below) under the Plan as Cash Pool Creditors.
- 5.13 Affected Unsecured Creditors with claims in excess of \$10,000 who do not make a Cash Election shall receive newly issued shares in LPRC and LPRI.

**Consideration to be distributed to Affected Unsecured Claims**

- 5.14 The Plan provides the following consideration to be distributed to the Affected Unsecured Creditors in full and final satisfaction of all Affected Unsecured Claims:

**For Cash Pool Creditors:**

- 5.14.1 Each Cash Pool Creditor will receive an amount from the Cash Pool equivalent to its pro-rata Share of the Cash Pool up to the value of its Allowed Affected Claim; and
- 5.14.2 The total amount payable to all Cash Pool Creditors is not to exceed \$700,000.

**For Affected Unsecured Creditors (other than Cash Pool Creditors):**

- 5.14.3 Each other Affected Unsecured Creditor (other than Cash Pool Creditors) with an Allowed Affected Unsecured Claim will receive:
- 5.14.3.1 Its pro-rata share of newly issued LPRC Class A Voting Common Shares;
- 5.14.3.2 One newly issued LPRI Class A Voting Common Share for each LPRC Class A Voting Common Share; and

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- 5.14.3.3 If such Affected Unsecured Creditor is a Backstopper<sup>1</sup>, its Backstopper's Pro-Rata Share of approximately \$4 million (calculated as 4% of the New Investment Amount).

#### New Investment

- 5.15 Each Qualifying Unsecured Creditor shall have the right, but not the obligation, to purchase for cash, up to such Affected Unsecured Creditor's Pro-Rata Share, of a new investment in LPRC Preferred Shares in the aggregate amount of between \$100 million to \$110 million and corresponding LPRI Multiple Voting Shares (the "**New Investment**").
- 5.16 For each LPRC Preferred Share purchased pursuant to the New Investment, a subscribing creditor will also acquire one LPRI Multiple Voting Common Share as part of the New Investment. The subscription price for the LPRI Multiple Voting Common Shares will be nominal (between \$100 and \$110 in the aggregate, depending on the final New Investment Amount for the LPRC Preferred Shares).
- 5.17 A Qualifying Unsecured Creditor means an Affected Unsecured Creditor that is not a Cash Pool Creditor and is an accredited investor as defined and contemplated by Rule 501 of Regulation D under the U.S. Securities Act. The U.S. Securities and Exchange Commission's definition of an accredited investor is attached as Appendix A.
- 5.18 In accordance with the proposed Meeting Order, each Affected Unsecured Creditor will receive a New Investment Subscription Form. In order to participate in the New Investment, a Qualifying Unsecured Creditor must return a duly executed New Investment Subscription Form to the Companies, the Monitor and Goodmans LLP, in accordance with the Plan and the Meeting Order by January 13, 2014. If the Plan is accepted, payment for the New Investment will be required five business days prior to the Anticipated Implementation Date, being January 31, 2014.
- 5.19 In addition, in order to become a Backstopper under the Backstop Agreement, any Qualifying Unsecured Creditor must return a duly executed Backstop Joinder to the Companies, the Monitor and Goodmans LLP, in accordance with the Plan and the Meeting Order by January 13, 2014. Each Backstopper agrees to invest additional

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<sup>1</sup> Per the Plan, "Backstoppers" means those Qualifying Unsecured Creditors that are Consenting Creditors and are parties to the Backstop Agreement (and any of their permitted assignees or designees), either by having executed the original Backstop Agreement as at September 24, 2013 or a Backstop Joinder on or before the Backstop Deadline, and "Backstopper" means any one of them.

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amounts (on a pro-rata basis) in the event that less than 100% of Affected Unsecured Creditors participate in the New Investment.

- 5.20 Submission of a New Investment Subscription Form in accordance with the Plan and the Meeting Order shall constitute a subscription and commitment to participate in the New Investment by purchasing LPRC Preferred Shares and LPRI Multiple Voting Common Shares under the New Investment.
- 5.21 It is anticipated that on a fully diluted or "as converted" basis, the LPRC Preferred Shares will represent approximately 75% of the equity of LPRC on Plan implementation, depending on the quantum of the New Investment.
- 5.22 As a result of the LPRC Preferred Shares issued as part of the New Investment, it is anticipated that the LPRC Class A Voting Common Shares distributed to Affected Unsecured Creditors will be diluted down to represent approximately 25% of the equity of LPRC on Plan implementation.
- 5.23 The redemption price of LPRC Preferred Shares and the number of votes attached to each LPRI Multiple Voting Common Shares will increase at a rate of 10% per year (the "**Accretion Rate**"); which, if redeemed after Plan Implementation, will increase the fully diluted percentage of equity relative to the LPRC Class A Voting Common Shares issued on Plan implementation above 75%.
- 5.24 Similarly, due to the Accretion Rate on the LPRC Preferred Shares (and the LPRI Multiple Voting Common Shares), holders of LPRC Class A Voting Common Shares issued on Plan implementation will see their respective position diluted with the passage of time due to the increase in the redemption price of the LPRC Preferred Shares by 10% per year, which will lower the effective equity interest of the LPRC Class A Voting Shares by approximately 1% to 2% per year on a fully diluted basis.
- 5.25 The Monitor notes that the newly issued LPRC Preferred Shares, LPRI Multi Voting Shares and LPRC Class A Voting Common Shares will not be publicly listed on a securities exchange. As such, there can be no certainty that Affected Unsecured Creditors who receive these shares will be able to trade them.

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#### **Existing shareholders and Equity Claimants**

- 5.26 The Plan contemplates that on the Plan Implementation Date, all existing Equity Interests, including all existing shares of common stock of LPRI, shall be cancelled and extinguished and all Equity Claims shall be fully, finally, irrevocably and forever compromised, settled, released, discharged extinguished, cancelled and barred.
- 5.27 The Plan contemplates that Equity Claimants will not receive any consideration or distributions under the Plan.

#### **Releases**

- 5.28 The Plan also provides for the release of the Released Parties from all claims relating to, among other things, the business and affairs of the Companies whenever or however conducted, the Recapitalization, the Plan, and the CCAA Proceedings. The Released Parties include the Companies, the Directors, the Officers, the Monitor and its Canadian and US legal advisors, the Note Indenture Trustee, the Consenting Creditors, the Backstoppers, the Agent, the Syndicate, the Company Advisors, and the Noteholder Advisors. The Companies will not be released or discharged from any Unaffected Claim or Claim that is not permitted to be released pursuant to the CCAA. Directors and Officers will not be released from any Claim that is not permitted to be released pursuant to the CCAA.

#### **Other key Plan terms**

- 5.29 The Plan includes a range of conditions precedent to implementation, which include, but are not limited to, the following:
- 5.29.1 The Court will have granted the CCAA Sanction order prior to January 17, 2014, and the Sanction Recognition Order in the US Chapter 15 will have been granted prior to January 31, 2014;
- 5.29.2 All conditions set out in the Support Agreement and Backstop Agreement shall have been satisfied or waived, and the Support Agreement and Backstop Agreement shall not have been terminated;
- 5.29.3 The Plan Implementation Date shall occur no later than February 15, 2014;

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- 5.29.4 The Companies shall have made arrangements for the payment in full of all amounts owing in respect of the existing Facility;
- 5.29.5 The New Investment Funds shall have been deposited with the Monitor; and
- 5.29.6 LPR Canada shall have obtained a new credit facility on terms acceptable to the Companies and the Majority Initial Consenting Noteholders.

## **6. ALTERNATIVES TO THE PLAN**

- 6.1 If the Plan is not implemented by January 31, 2014, the Syndicate has advised that it will seek to require the Companies to commence a liquidation of the assets of Lone Pine Resources, as it wants to effect a recovery of its secured loans as soon as possible. The Monitor notes that if the Plan is not approved or implemented, neither the New Investment Amount nor the proceeds of the new ABL Loan will be received by the Companies, which will result in Lone Pine Resources having insufficient liquidity to continue operations and fund its winter drilling program.
- 6.2 As a result, continuation of the Companies "as is" is not feasible. Accordingly, in the event that the Plan is not approved or implemented, the two most probable alternatives available to the Companies are:
  - 6.2.1 A run-out or 'Blow-down' of the Companies' existing producing assets; or
  - 6.2.2 An orderly liquidation of all of the assets of the Companies.
- 6.3 In order to assist stakeholders in understanding the values that might be obtained under these two alternatives, the Monitor provides below:
  - 6.3.1 An overview of the Companies' oil and gas properties;
  - 6.3.2 A summary of the recent Sales Process (as hereinafter defined) that was undertaken for the Companies' Core Assets (as hereinafter defined), as the results from this process are indicative of the current market values of the Core Assets (as hereinafter defined);
  - 6.3.3 The Monitor's views on the current recoverable value of the Non-Core Assets (as hereinafter defined); and

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- 6.3.4 The Monitor's views on the impact of the Spin-Off Restrictions (as hereinafter defined) on the Sales Process (as hereinafter defined).
- 6.4 Additionally, in Section 12 of this report, the Monitor provides an analysis of the potential recoveries that would be available under a "Blow-down" Scenario (as hereinafter defined) and in Section 13 of this report the Monitor provides an analysis of the recoveries that would be available under an orderly liquidation of the Companies' assets.

## 7. OVERVIEW OF THE OIL AND GAS PROPERTIES

### Core Assets

- 7.1 LPRC has two principal oil and gas producing properties, being the properties located in the Evi field (the "**Evi Properties**") and the properties located in the Narraway/Ojay fields (the "**Narraway/Ojay Properties**") (collectively, the "**Core Assets**"). These properties are detailed in the first Granger Affidavit and summarized below:
- 7.1.1 The Evi Properties, located in the Peace River Arch area of northern Alberta, primarily target light oil production. As at December 31, 2012, estimated proved reserves for the Evi Properties were approximately 18.2 million barrels of oil equivalent ("**boe**"), as determined in accordance with the requirements of the U.S. Securities and Exchange Commission ("**SEC**"), with 35% classified as proved developed reserves. Lone Pine Resources currently has 148 net productive wells on the Evi Properties. Average daily net sales volumes from the Evi Properties for the three months ended September 30, 2013, were approximately 1,943 boe per day at an average realized equivalent selling price of \$97.81 per boe.
- 7.1.2 The Narraway/Ojay Properties, located in Alberta and British Columbia, primarily target natural gas with minimal natural gas liquids content. As at December 31, 2012 (the effective date of the most recently updated reserve report), estimated proved reserves for the Narraway/Ojay Properties were approximately 62.2 billion cubic feet equivalent ("**Bcfe**") as determined in accordance with SEC requirements, with 100% classified as proved developed reserves. Lone Pine Resources currently has 40.7 net productive wells on the Narraway/Ojay Properties. Average daily net sales volumes from the Narraway/Ojay Properties for the three months ended September 30, 2013, were approximately 24.7 million cubic feet equivalent ("**MMcfe**") per day at an

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average realized equivalent selling price of \$2.64 per thousand cubic feet equivalent (“**Mcf**”).

#### Non-Core Assets

- 7.2 LPRC also holds a number of other non-core assets, which include undeveloped shale gas properties in Quebec and the Northwest Territories with unconventional gas potential and smaller operated and non-operated producing properties in Alberta and British Columbia (the **Non-Core Assets**”).
- 7.3 The Companies have publicly disclosed that the two shale properties in Quebec and the Northwest Territories could, with development, potentially provide commercial quantities of natural gas. The shale gas properties have been held for a significant amount of time, as the Companies’ ownership pre-dates the Forest Spin-Off (as hereinafter defined). The Non-Core Assets can be summarized as follows:
- 7.3.1 LPRC holds approximately 240,320 net acres in Quebec (the “**Quebec Properties**”) that are prospective for the Utica shale. There is currently no production from the Quebec Properties and, as discussed in further detail in the NAFTA claims section of the Confidential Supplement, no reserves are attributed to the Quebec Properties as the project remains exploratory in nature. Development of the Quebec Properties has halted due to a moratorium on shale gas activity imposed by the Government of Quebec. Currently, there do not appear to be any plans announced by the Government of Quebec to modify or discontinue the moratorium.
- 7.3.2 In the Northwest Territories at Pointed Mountain, LPRC holds approximately 53,000 net acres of undeveloped properties in the Liard Basin (the “**Liard Properties**”) that are prospective for shale gas from the Muskwa and Exshaw horizons.
- 7.3.3 LPRC also has undeveloped land in other areas, the most significant of which is prospective land in a potential light oil rich area called Hutch (the “**Hutch Properties**”), in Northern Alberta. The Hutch Properties were purchased after the Forest Spin-Off (as hereinafter defined) for approximately \$7.5 million.
- 7.3.4 Other non-core producing assets in Alberta, consist of the Hayter property in Eastern Alberta (the “**Hayter Property**”) which currently produces



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approximately 250 boe per day of heavy oil, and a number of non-operated properties (the “**Non-Operated Properties**”) currently producing approximately 5 MMcfe per day of natural gas.

- 7.4 In summary, as set out in the table below, the Core Assets (consisting of the Evi Properties and the Narraway/Ojay Properties), represent the majority of the Companies’ Oil & Gas Properties, as they comprise approximately 85% of current daily production and approximately 88% of proved reserves with the other non-core properties making up the remainder.

Property	Daily Production Rates				SEC RR 2012	
	Q3 2013		Q4 2012		Proved Reserves	
	Boe/d	%	Boe/d	%	Boe	%
Evi	1,943	27%	2,730	29%	17,181,333	55%
Narraway/Ojay	4,117	58%	5,017	53%	10,372,152	33%
<b>Total Core Assets</b>	<b>6,060</b>	<b>85%</b>	<b>7,747</b>	<b>81%</b>	<b>27,553,485</b>	<b>88%</b>
Non-Core Assets	1,050	15%	1,783	19%	3,863,681	12%
<b>Total</b>	<b>7,110</b>		<b>9,530</b>		<b>31,417,167</b>	

Notes:

- Mcfe/d converted to boe/d at a rate of 6:1.
- Proved Reserves based on SEC reserve reporting requirements.

## 8. SALES PROCESS FOR CORE ASSETS

- 8.1 The following section of the report summarizes the recent process undertaken by the Companies to market the Core Assets, as the results of this process are indicative of the current market value of the Core Assets which the Monitor has used in its Liquidation Analysis (as hereinafter defined).
- 8.2 In August 2012, Lone Pine Resources engaged RBC Dominion Securities Inc., a member company of RBC Capital Markets (the “**Financial Advisor**”) to assist the Companies in considering alternatives to maximize the value of Lone Pine Resources Core Asset portfolio (the “**Sales Process**”), namely the Evi Properties and the Narraway/Ojay Properties.

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#### EVI Marketing Process

- 8.3 The Financial Advisor initiated the marketing process for the Evi Properties (the “**Evi Marketing Process**”) on September 17, 2012, after the Financial Advisor, in consultation with the Companies, developed a list of 135 potential purchasers. The potential purchaser list included both strategic and financial buyers located in Canada, the USA and internationally, and included various foreign and state owned oil companies and numerous financial or private equity parties.
- 8.4 The Evi Marketing Process was structured to identify parties who were interested in:
- 8.4.1 A joint venture with the Evi Properties;
  - 8.4.2 A ‘farm-in<sup>2</sup>’ transaction with the Evi Properties; or
  - 8.4.3 An alternative transaction such as an outright acquisition.
- 8.5 The Financial Advisor has advised the Monitor that, while the Evi Marketing Process initially focused on a number of different transaction types including a joint-venture partnership, all potential purchasers were informed that the Companies would be open to an outright acquisition of the Evi Properties and would consider any proposals received.
- 8.6 An introductory “teaser” letter was prepared by the Financial Advisor and Lone Pine Resources and sent to the 135 identified potential purchasers. A copy of the teaser is attached as Appendix B. Of the 135 parties contacted, 20 parties signed confidentiality agreements.
- 8.7 A confidential virtual data room was developed by the Financial Advisor and Lone Pine Resources. The virtual data room contained various detailed financial, operational, geological and legal documentation. The virtual data room was opened on October 4, 2012 to allow parties who had signed confidentiality agreements to access certain confidential data to assist with their due diligence in analyzing the Evi Properties.
- 8.8 Lone Pine Resources and the Financial Advisor also developed a management presentation which contained more detail about the Evi Properties. Through October and

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<sup>2</sup> Farm-ins are an oil and gas term for deals where a company, not at present a licensee on a particular licensed area, can acquire an interest from one of the existing licensees. The transfers of interest are generally made in return for exploration or other commitments, for exchanges of licence interests, or for cash

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November, 2012, 14 parties requested and attended management presentations with respect to the Evi Properties.

- 8.9 The Financial Advisor set a date of December 12, 2012 for the first round of proposals for the Evi Properties, approximately 3 months after the start of the Evi Marketing Process. Three proposals were received by this bid deadline date. An additional proposal was received on December 19, 2012. All four proposals were reviewed in detail by the Companies and the Financial Advisor. The proposals received indicated that the interested parties would be interested in joint ventures or outright purchases of the Evi Properties.
- 8.10 On January 9, 2013, the Companies elected not to pursue two of the four proposals (due to issues with the proposed structure and low price offered) and requested that revised proposals be submitted by the other two interested parties. In February 2013, the Companies received a fifth proposal which, after review, was not pursued by the Companies due to the inadequate price offered.
- 8.11 On March 7, 2013, the Companies signed a letter of intent with respect to a joint venture on the Evi Properties with one of the two remaining participants in the process (the "**JV Counterparty**"). The Monitor notes that the remaining participant in the process subsequently retracted its offer to purchase 100% of the Evi Properties, as the party subsequently determined that it was unable to finance the proposed transaction. The Financial Advisor continued negotiations with the JV Counterparty through June 2013, at which time negotiations were terminated as Lone Pine Resources and the JV Counterparty could not come to mutually acceptable terms of a transaction.
- 8.12 In August 2013, the Financial Advisor re-approached parties that had previously expressed an interest in the Evi Properties, to re-solicit bids with respect to the Evi Properties. As a result of this, in or around the beginning of September 2013, two parties submitted acquisition proposals or expressions of interest for a 100% interest in the Evi Properties. The offers ranged between \$125 million and \$150 million and contemplated purchasing a 100% interest in the Evi Properties.
- 8.13 The Financial Advisor has advised the Monitor that during 2013, the market's view of the desirability of properties in the Evi field deteriorated significantly, as a result of companies operating in the Evi field reporting higher than expected operating costs, lower than expected well performance, and high capital costs related to drilling and maintaining production levels. As a result, the Financial Advisor has advised the Monitor

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that the price that interested parties were willing to pay for the Evi Properties declined significantly during 2013, once interested parties conducted their technical due diligence of the Evi Properties and became aware of general market conditions and the capital intensity of developing the Evi field.

- 8.14 In summary, the Financial Advisor contacted 135 parties in respect of the Evi Marketing Process. The Evi Marketing Process was run for a period of approximately 12 months, during which 20 parties signed confidentiality agreements and five parties submitted proposals. After lengthy negotiations, in September, 2013, two expressions of interest to acquire a 100% interest in the Evi Properties were received for \$125 million and \$150 million (the “**Evi Offers**”).
- 8.15 The Monitor has benchmarked the Evi Offers using the following two metrics:
- 8.15.1 Price per flowing boe of production; and
- 8.15.2 Pricing of proved and probable reserves, based on NI 51-101 standards.
- 8.16 Based on the Companies average daily production as at September 2013 (of 1,940 boe per day), the Evi Offers equate to an approximate value range of \$64,400 to \$77,300 per flowing boe. An analysis by the Monitor of the publically available data for comparable 2013 sales transactions involving oil weighted producing assets in Western Canada (proved plus probable oil reserves of 50% or greater) (the “**2013 Oil Transactions**”) indicates that the average selling price per flowing boe was approximately \$67,400. A summary of the 2013 Oil Transactions is attached as Appendix C.
- 8.17 Therefore, the Monitor concludes that, with respect to the producing Evi Properties, the Evi Offers provide value consistent with that of the current market.
- 8.18 The Monitor also performed a detailed comparable transaction analysis of values for proved and probable reserves.
- 8.19 Based on Lone Pine Resources’ NI 51-101 reserves, the Evi Offers equate to an approximate value range of \$8.84 to \$10.61 per boe for proved reserves (“**1P**”) and \$4.73 to \$5.67 per boe for proved plus probable reserves (“**2P**”). The average pricing per the 2013 Oil Transactions was significantly higher at \$23.30 per boe for 1P and \$16.50 for 2P. The primary reasons for this difference include:

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- 8.19.1 The Evi Properties are a unique play that involves tight oil reserves that are difficult to access. These reserves require expensive and high risk extraction techniques, such as horizontal wells with multistage fracture stimulation completions and complex waterflood secondary recovery techniques. As such, the market value attributed to non-producing Evi reserves (both proven and probable) is significantly discounted to reflect these increased costs and risks as the lower capital efficiencies of the Evi field; and
- 8.19.2 The average pricing for the 2013 Oil Transactions is skewed higher due to four transactions with dollar per boe values that were significantly higher than market (with 3 of the 4 transactions being for assets located in Saskatchewan):
- 8.19.2.1 Surge Energy acquisition (\$42.03 per boe for 1P and \$22.46 for 2P) – medium gravity oil reserves in southwest Saskatchewan with key infrastructure in place and large inventory of unbooked oil locations on the acquired lands;
  - 8.19.2.2 Toscana Energy acquisition (\$36.11 per boe for 1P and \$26.60 for 2P) - diversified portfolio of oil and gas royalties from producing properties throughout western Canada;
  - 8.19.2.3 TORC acquisition (\$31.78 per boe for 1P and \$22.97 for 2P) – low decline high netback light-oil reserves in southeast Saskatchewan with a large inventory of 3D seismic and undeveloped land; and
  - 8.19.2.4 Whitecap Resources acquisition (\$30.18 per boe for 1P and \$24.49 for 2P) – long reserve life, low decline high netback light-oil reserves located in west central Saskatchewan.
- 8.20 The current market for the Evi Properties is also affected by the large amount of Western Canadian asset inventory currently on offer.
- 8.20.1 At present, approximately 106,700 boe/d of oil weighted production is on the market, indicating that there are a large number of other oil and gas companies trying to divest of similar assets.
  - 8.20.2 The Monitor and the Financial Advisor note that available for sale production in Western Canada is currently at the highest level in the past five years.

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- 8.21 Based on the above analysis, the results of the Evi Marketing Process appear to be reflective of the current market for oil weighted properties in Western Canada.

#### **Narraway/Ojay Marketing Process**

- 8.22 The Financial Advisor initiated the marketing process for the Narraway/Ojay Properties (the "**Narraway/Ojay Marketing Process**") in October 2012 after it, in consultation with the Companies, developed a list of potential purchasers. The Financial Advisor contacted 43 parties starting in October 2012. The potential purchaser list included both strategic and financial buyers located in Canada, the USA and internationally, and included various foreign and state owned oil and gas companies and numerous potential financial/private equity purchasers.
- 8.23 The Monitor notes that the Narraway/Ojay Properties primarily target dry natural gas production and, due to the continuing depressed market prices of natural gas along with the high well/drilling costs in the area, there is a smaller number of potential purchasers for the Narraway/Ojay Properties as compared to the Evi Properties, which primarily targets light oil production.
- 8.24 The Narraway/Ojay Marketing Process was structured to identify parties who were interested in an outright purchase of the Narraway/Ojay Properties; however, the marketing materials indicated that the Company would also be open to an alternative structure such as a joint venture.
- 8.25 An introductory "teaser" letter was prepared by the Financial Advisor and Lone Pine Resources and sent to prospective purchasers. A copy of the teaser is attached as Appendix D. Of the 43 parties contacted, seven parties signed confidentiality agreements.
- 8.26 A confidential virtual data room was developed by the Financial Advisor and Lone Pine Resources. The virtual data room contained various detailed financial, operational, human resources, geological and legal documentation. The virtual data room was made available to allow parties who had signed confidentiality access to certain confidential data to assist with their due diligence in analyzing the Narraway/Ojay Properties.
- 8.27 Lone Pine Resources and the Financial Advisor also developed a management presentation which contained significantly more detail about the Narraway/Ojay Properties. By the end of November, 2012, four parties requested and attended management presentations with respect to the Narraway/Ojay Marketing Process.

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- 8.28 The Financial Advisor had set a date of December 12, 2013 for the first round of proposals for the Narraway/Ojay Propertie. However, no proposals were submitted by the bid deadline of December 12, 2012.
- 8.29 As a result of this, the Financial Advisor continued the Narraway/Ojay Marketing Process through the first half of 2013, which resulted in the Company receiving two non-binding proposals, one in May 2013 and one in June 2013. However, both proposals were conditional on extensive due diligence and certain other approvals, including financing, and pricing was deemed inadequate. As a result, both of these proposals were rejected.
- 8.30 In August 2013, the Financial Advisor re-approached parties that had previously expressed an interest in the Narraway/Ojay Properites, to re-solicit bids with respect to the Narraway/Ojay Properites. As a result of this, in or around the beginning of September 2013, two parties who had previously submitted the non-binding proposals reaffirmed their expressions of interest in the Narraway/Ojay Properties. The offers ranged between \$70 million and \$75 million and contemplated purchasing a 100% interest in the Narraway/Ojay Properties, and were still subject to due diligence and various conditions.
- 8.31 In summary, the Financial Advisor contacted 43 parties in respect of the Narraway/Ojay Marketing Process. The Narraway/Ojay Marketing Process was run for a period of approximately 10.5 months during which seven parties signed confidentiality agreements and two parties submitted proposals.
- 8.32 In September, 2013, the two parties interested in purchasing the Narraway/Ojay Properties reaffirmed their respective expressions of interest to acquire a 100% interest in the Narraway/Ojay Properties for \$70 million and \$75 million, respectively (the "**Narraway/Ojay Offers**").
- 8.33 The Monitor has benchmarked the Narraway/Ojay Offers using the following two metrics:
- 8.33.1 Price per flowing boe of production; and
- 8.33.2 Pricing of proved and probable reserves, based on NI 51-101 standards.
- 8.34 Based on the average daily production (primarily dry natural gas) as at September 2013 (of 4,120 boe per day), the Narraway/Ojay Offers equate to an approximate value range of

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\$17,000 to \$18,200 per flowing boe. An analysis of the publicly available data for 2013 sales transactions involving gas weighted (gas reserves of 50% or greater) producing assets in Western Canada (the “**2013 Gas Transactions**”) indicates that the average selling price per flowing boe was approximately \$21,900. A summary of the 2013 Gas Transactions is attached as Appendix E

- 8.35 The Narraway/Ojay Offers reflect value that is lower than the market average, which is attributed to:
- 8.35.1 The majority of the 2013 Gas Transactions occurred in Q1 and Q2 of 2013 when natural gas prices were higher; and
  - 8.35.2 Although weighted toward gas, the 2013 Gas Transactions reflect packages of assets that have differing weightings of dry gas, natural gas liquids and oil. The transactions with higher percentages of natural gas liquids and oil attract higher market prices due to the relatively higher value of these commodities. The Narraway/Ojay assets produce almost 100% dry gas and therefore attract a lower market price.
- 8.36 Based on Lone Pine Resources’ NI 51-101 reserves, the Narraway/Ojay Offers equate to an approximate value range of \$3.91 to \$4.19 per boe for 1P reserves and \$1.27 to \$1.36 per boe for 2P reserves. The average pricing for the 2013 Gas Transactions was significantly higher at \$7.30 per boe for 1P and \$6.40 for 2P.
- 8.37 The primary reasons for this difference relates to the fact that, although weighted toward gas, the 2013 Gas Transactions reflect packages of assets that have differing weightings of dry gas, natural gas liquids and oil. The transactions with higher percentages of natural gas liquids and oil attract higher market prices due to the relatively higher value of these commodities. The Narraway/Ojay assets produce almost 100% dry gas and therefore attract a lower market price.
- 8.38 Additionally, the Monitor notes that a number of leases for the Narraway/Ojay Properties are expected to expire in the near future due to various reasons, including, but not limited to, lack of drilling activity on the Narraway/Ojay Properties. Due to capital constraints faced by Lone Pine Resources, and the continuing depressed prices of natural gas, the Companies have not recently engaged in an active drilling program in Narraway/Ojay and LPRC’s current capital and drilling program does not contemplate significant development of the Narraway/Ojay Properties. Accordingly, Lone Pine Resources



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expects that leases for certain lands that form part of the Narraway/Ojay Properties will expire in the coming 12 month period and may not be renewed.

8.39 The current market for the Narraway/Ojay Properties is also affected by the large amount of Western Canadian asset inventory currently on offer.

8.39.1 At present, approximately 43,100 boe/d of gas weighted production is on the market, indicating that there are a large number of other oil and gas companies trying to divest of similar assets.

8.39.2 The Monitor and the Financial Advisor note that available for sale production in Western Canada is currently at the highest level in the past five years.

8.40 Based on the above analysis, the results of the Narraway/Ojay Marketing Process appear to be reflective of the current market for dry natural gas properties in Western Canada.

#### **En Bloc Marketing Process**

8.41 In or around February 2013, the Financial Advisor also initiated a marketing process soliciting interest for a corporate acquisition of Lone Pine Resources or an en bloc purchase of all or substantially all of the Companies' assets (the "**En Bloc Marketing Process**").

8.42 In consultation with the Companies, the Financial Advisor developed a list of potential en bloc purchasers and contacted 21 parties over a two week period. None of the parties contacted expressed any interest in a corporate acquisition of Lone Pine Resources or an en bloc purchase for the Companies' assets. The Financial Advisor has advised that it received strong indications from the parties contacted that there was no interest in an en bloc transaction for Lone Pine Resources' assets. Some counterparties indicated that they would only be interested in purchasing certain oil or gas assets, (i.e. not all of the Companies' assets), and that they would prefer to buy assets individually rather than assume the Companies' liabilities as part of an en bloc sales process.

8.43 On March 1, 2013, the Financial Advisor confirmed to the Company that there was no corporate or en bloc acquisition interest amongst the contacted organizations and accordingly, the En Bloc Marketing Process was terminated.

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#### **9. ESTIMATED VALUE OF NON-CORE ASSETS**

##### **Quebec Properties**

- 9.1 Currently, there is no production from the Quebec Properties and, due to the moratorium on shale gas activities and development imposed by the Government of Quebec, there is no path to develop production from the Quebec Properties at the present time. The Monitor is not aware of any near or medium term solution that would see any development permitted.
- 9.2 No reserves are currently attributed to the Quebec Properties as the inventory of exploration wells drilled has not proven to be economically viable.
- 9.3 The Financial Advisor has confirmed that they do not expect that any value would be realized from marketing the Quebec Properties due to the current regulatory environment, the moratorium of shale gas activities and development, and the potential for environmental liabilities associated with cleanup of the Quebec Properties. Accordingly, the Monitor expects that little or no value would be realized from a sale of these properties, especially in a liquidation scenario. The Monitor believes that finding a purchaser for the Quebec Properties at any significant price would be highly unlikely and the Quebec Properties have only future exploration value. The Companies' most likely realization from these properties relates to the NAFTA claim which is discussed in the NAFTA claim section of this report.
- 9.4 The Monitor notes that the current book value of the Quebec Properties is quite high at approximately \$35 million. This is because, historically, costs incurred with respect to the Quebec Properties were capitalized as "unproven property and equipment" on the Companies' financial statements, in accordance with the full cost method of accounting used by the Companies.

##### **Liard Properties**

- 9.5 The Liard Properties are located in a remote area of the Northwest Territories, and are a prospective shale gas play in the Liard Basin. The Liard Basin is generally an undeveloped and relatively unexplored region that straddles the Yukon Territory, the Northwest Territories and the province of British Columbia. Various industry players, including Lone Pine Resources, have publicly stated that the play has significant development potential for dry natural gas. Lone Pine Resources believes that the shale gas play in the

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Liard Basin has significant potential and that the prospective resource, while undefined, is quite large. Competitors operating in the Liard Basin confirm Lone Pine Resources' belief that the Liard Basin is a significant prospective shale gas resource.

- 9.6 However, due to the remote location and the geology of the Liard Properties, drilling and capital costs are extremely high and estimated at between \$15 million to \$25 million per horizontal well as compared to \$5 million to \$10 million at other locations in Alberta. To date, the Companies' development activities on the Liard Properties have been limited to re-entering and recompleting an existing non-producing vertical test well in order to increase the Companies' understanding of the asset. Engineering estimates from the re-entered test well were positive and confirmed the Companies' expectation that the Liard Properties may be a significant resource.
- 9.7 Lone Pine Resources advises the Monitor that LPRC's development activity of its Liard Properties has been limited due to the limited capital budget available to the Companies and the continuing depressed price of natural gas. Based on the Companies' engineering estimates, it would not be economical to develop the Liard Properties with the current market price of natural gas. Lone Pine Resources estimates that to break even on developing the Liard Properties natural gas would have to be in the range of \$5.50 per Mcfe, which represents a premium of approximately 160% over the market price for natural gas in Alberta (the AECO-C spot price) at the date of this report.
- 9.8 The Monitor has reviewed publically available information from competitors of Lone Pine Resources operating in the Liard Basin. The Monitor notes that Lone Pine Resources' competitors confirm that the prospective resources in the Liard Basin are currently not economical to develop. Competitors have publically stated that North American natural gas prices will limit immediate development of the Liard Basin and that significantly higher natural gas prices are required to make the development of the Liard Basin commercially viable. Competitors are at various stages of exploring the Liard Basin, but the current market consensus is that projects in the Laird Basin are uneconomical given the current low price of natural gas.
- 9.9 Certain competitors are taking part in liquefied natural gas ("LNG") projects on the west coast of British Columbia, which may enhance the economic viability of developing the Liard Basin; however, these LNG projects are still a number of years away from being developed. Furthermore, it is anticipated that many of these prospective LNG projects will secure supply from the Montney and Horn River gas fields that are currently being developed before the Liard Basin. Both the Montney and Horn River gas fields have

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lower cost structures and are closer to the proposed West Coast LNG terminals, making them more economical to develop.

- 9.10 Additionally, there is currently a concern with respect to LPRC's land rights to the Liard Properties. Lone Pine Resources has been aware for a number of years that the Companies' land rights would contractually expire in February 2013 if action was not taken to extend those rights. Accordingly, LPRC had to take steps to extend those rights, which it commenced in 2012. In May 2013, Lone Pine Resources disclosed that the National Energy Board of Canada had granted Lone Pine Resources a commercial discovery declaration for mineral and surface rights, which was the first necessary step toward extending LPRC's land rights. Subsequently, LPRC requested a 21 year lease extension from Aboriginal Affairs and Northern Development Canada ("AANDC"). The Companies require the sign off and approval of AANDC before continuing any further development of the Liard Properties. Management is hopeful that they will receive a positive decision with respect to the land rights in early 2014. In the event that the AANDC application is denied, the Liard Properties could represent a liability to the Company due to cleanup costs associated with test well drilling on the Liard Properties.
- 9.11 Assuming LPRC's lease extension is granted by AANDC, the Companies would be in a position to develop the Liard Properties, seek joint venture partners, or sell the asset. However, due to the issues discussed above, the depressed market prices for natural gas, and the high cost structure of wells, the Liard Properties are not economical to develop in the current market without, among other things, a significant increase in natural gas prices.
- 9.12 The Financial Advisor has confirmed to the Monitor that there are a very limited number of potential investors looking for prospective shale gas assets either from an outright purchase perspective or with respect to a joint-venture partnership. The Financial Advisor indicated that the area around the Liard Properties has gained some investor attention over the past year and that some competitors of Lone Pine Resources have large positions in the area and have spoken encouragingly about their own assets.
- 9.13 The Financial Advisor confirmed that as part of the Sales Process, the Financial Advisor reached out to at least two competitors with assets in the Liard Basin to market the Liard Properties. Both competitors confirmed that they were not interested in purchasing the Liard Properties.

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- 9.14 Due to the limited development in the Liard Basin, there are very few reasonable comparable transactions to assist in valuing the Liard Properties. The Financial Advisor has suggested that some transactions in the Horn River Basin may provide some comparable transactions, however the Financial Advisor expects that any assets in the Liard Basin would likely see a very significant discount to Horn River Basin opportunities, as very little is known about the Liard Basin at this time as there is minimal production history or demonstration of long term productivity and forecasted development costs are very high. The Monitor also understands that there have been no Liard Basin land sales in the past two years.
- 9.15 The Financial Advisor's analysis of the Liard Properties indicates that property values per acre may range between \$0 per acre to \$565 per acre based on other gas plays. This would indicate that the Liard Properties may be worth between \$0 million to \$30 million if a purchaser can be located. However, as noted previously, there are no recent direct comparables for the Liard Basin and there have been no land sales which could also be used as a basis for comparison. The Monitor has reviewed comparable sales in surrounding gas plays and agrees with the assessment by the Financial Advisor. The Monitor's analysis of comparable transactions indicates that transactions in the Horn River Basin have historically been in the range of \$1,000 per acre, but these projects are more economically developable as compared to the Liard Basin. Accordingly, the Monitor would expect a potential purchaser to pay substantially less than \$1,000 per acre for properties in the Liard Basin.

#### **Hutch Properties**

- 9.16 In early 2012, the Companies spent approximately \$7.5 million acquiring the Hutch Properties, which consist of approximately 100,000 net acres. This asset has not yet been drilled or developed and Lone Pine Resources has been actively seeking 'farm-in' partners over the past year with no success. Given the fact that Lone Pine Resources has not spent any money developing the Hutch Properties, the Monitor expects that the Companies would receive a maximum value of approximately \$7.5 million if Lone Pine Resources attempted to sell these properties.

#### **Other Miscellaneous Properties**

- 9.17 Lone Pine Resources has informed the Monitor that there are certain other miscellaneous properties, which include the Hayter Property which currently produces approximately 250 boe/d of heavy oil and certain other Non-Operated Properties collectively currently

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producing approximately 833 boe/d of natural gas. These properties have not been marketed since the IPO (as hereinafter defined) due a mix of poor economics and certain legal issues associated with the Hayter Property.

- 9.18 The Monitor's analysis of comparable transactions indicates that the closest comparable transaction for the Hayter Property is the recent acquisition of Black Shire Energy by Twin Butte Energy in October 2013. The comparable transaction equates to an approximate value of \$50,000 per flowing boe. Applying this value to the Hayter Property production would result in an approximate value of the Hayter Property of \$12.5 million, assuming that an interested buyer could be found for the Hayter Property.
- 9.19 Applying the mid-point of the value range for the Narraway/Ojay Properties (which are also gas producing properties) of \$17,600 per flowing boe/d, would result in an approximate value of the Non-Operating Properties of \$14.7 million assuming that an interested buyer could be found for the Non-Operating Properties.
- 9.20 The Monitor believes that the values calculated above for the Hayter Property and Non-Operated Properties would represent the high end of values that may be realized in a going-concern sale of these properties due to the abundance of similar properties for sale, and limited market interest is gas assets for the Non-Operating Properties. Actual values received in a liquidation scenario may be substantially less.

#### 10. FOREST OIL SPIN-OFF RESTRICTIONS

- 10.1 The Monitor is aware of various restrictions (the "**Spin-Off Restrictions**") imposed on the Companies under and pursuant to the provisions of the tax sharing arrangement between LPRI and Forest Oil Corporation ("**Forest Oil**") in connection with the IPO (as hereinafter defined) of LPRI that was completed on June 1, 2011 and subsequent Spin-Off (as hereinafter defined) by way of stock dividend by Forest Oil to its shareholders of its remaining shares of common stock of LPRI that was completed on September 30, 2011. Certain stakeholders have raised a concern that the Spin-Off Restrictions may have negatively impacted the Sales Process and questioned whether the provisions of the CCAA would allow the Company to better market its assets without the Spin-Off Restrictions. The Monitor's views and analysis of the Spin-Off Restrictions in the context of the Sales Process are detailed below.
- 10.2 The Relevant Spin-Off Restrictions can be summarized as follows:

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- 10.2.1 The Spin-Off of Lone Pine Resources would have been taxable to Forest Oil if it were treated as part of a “plan” under the US tax code. For the Spin-Off to be treated as a plan, one or more persons would have to acquire 50% or more of the stock of Lone Pine Resources within two years before or after the Spin-Off date.
  - 10.2.2 The tax sharing agreement entered into between LPRI and Forest Oil in connection with the IPO restricts certain actions that may be taken by Lone Pine Resources in order to preserve the tax free nature of the Spin-Off.
  - 10.2.3 An exception to the 50% acquisition rule exists such that if an acquisition of Lone Pine Resources took place after the Spin-Off, the Spin-Off and the acquisition would not be considered part of a plan unless Forest Oil has entered into an agreement, understanding, or arrangement or had engaged in substantial negotiations with the acquirer at some time during the two year period prior to the Spin-Off date.
  - 10.2.4 The tax sharing agreement also, among other things and with certain exceptions, restricts Lone Pine Resources’ ability to divest of assets outside of the ordinary course of business and to sell or issue common stock for a two year period after the Spin-Off Date.
- 10.3 At the start of the Sales Process, Lone Pine Resources and Forest identified two potential parties with whom Forest or Lone Pine Resources had negotiations during the two year period prior to the Spin-Off. In the context of the Sales Process, the Spin-Off Restrictions would potentially apply to Lone Pine Resources entering into certain transactions with the two parties identified. Notwithstanding the fact that Lone Pine Resources believed there was no evidence of substantial negotiations with these two parties, Lone Pine Resources internally flagged these parties as requiring additional scrutiny in the event that either party submitted an offer to acquire 50% or more of the stock of Lone Pine Resources as part of the Sales Process.
- 10.4 During the Sales Process the Financial Advisor contacted and marketed one of the two parties that may be subject to the Spin-Off Restrictions. The party did not have sufficient interest to submit an offer or pursue a transaction of any type. As a result, no further analysis was completed with respect to the effect the Spin-Off Restrictions may have had on any transaction with this party.

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- 10.5 The second party that may be subject to the Spin-Off Restrictions was not contacted during the Sales Process. The Monitor has reviewed the asset portfolio of the second party and notes that the second party has no oil or gas portfolio in Canada and the assets of Lone Pine Resources are of a different focus than other global oil and gas assets owned by the second party.
- 10.6 The Monitor has discussed the Spin-Off Restrictions with the Financial Advisor to gain an understanding of what impact, if any, these restrictions had on the Sales Processes for the Companies' assets. The Monitor met with the Financial Advisor on multiple occasions, including an independent meeting and numerous calls with the Financial Advisor where management of Lone Pine Resources was not present.
- 10.7 During the Monitor's independent meeting and numerous calls with the Financial Advisor, the Financial Advisor confirmed the following key points regarding the Spin-Off Restrictions:
- 10.7.1 The Financial Advisor was not intimately aware of the details of the Spin-Off Restrictions;
  - 10.7.2 The Financial Advisor was not aware of the two parties that Lone Pine Resources had internally identified as requiring additional scrutiny in the event that either party submitted an offer;
  - 10.7.3 The Spin-Off Restrictions did not affect the Financial Advisor's mandate;
  - 10.7.4 Details of the Spin-Off Restrictions were not included in any marketing materials and were not discussed with any of the interested parties;
  - 10.7.5 Not a single interested party raised a question about the existence of the Spin-Off Restrictions or flagged the Spin-Off Restrictions as a reason not to engage in a transaction with Lone Pine Resources;
  - 10.7.6 Not a single interested party raised any concern related to Lone Pine Resources ability to transact; and
  - 10.7.7 The Financial Advisor is confident that the Spin-Off Restrictions had no impact on the offers received or the Sales Process.
- 10.8 Additionally, the Monitor has reviewed the Sales Process documents, the marketing materials, and the Financial Advisor's engagement letters and confirmed that no information regarding the Spin-Off Restrictions is contained within the respective materials.



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- 10.9 The Monitor's investigation leads it to conclude that, to the best of its knowledge, the Spin-Off Restrictions did not negatively impact the Sales Process. Lone Pine Resources' internal analysis identified only two parties to which the Spin-Off Restrictions may have applied and neither party submitted an offer to purchase the assets of Lone Pine Resources during the Sales Process. The Monitor concludes that there does not appear to be any benefit from re-marketing the assets without the Spin-Off Restrictions in place.

#### **11. MONITORS VIEW ON THE SALES PROCESS**

- 11.1 The Financial Advisor has advised the Monitor that the Sales Process was broad and far-reaching with respect to parties contacted and the time frame during which the assets were marketed.
- 11.2 The Financial Advisor broadly canvassed the market and included both strategic and financial counterparties. The Financial Advisor advises that there are approximately 35 companies in Calgary with a sufficient market capitalization and strategic orientation to consider a purchase of the Evi Properties, and fewer potential purchasers of the Narraway/Ojay Properties. Accordingly, the Financial Advisor marketed the assets locally, nationally and internationally to both strategic and financial purchasers, with parties as diverse as private equity funds and state owned oil companies.
- 11.3 The Financial Advisor has advised the Monitor that the market has been fully canvassed and that the Evi Marketing Process, the Narraway/Ojay Marketing Process and the En Bloc Marketing Process resulted in the highest and best offers available to the Company at that time for the Companies' assets.
- 11.4 Additionally, the Financial Advisor has advised the Monitor that it is unlikely that an extension to the En Bloc Marketing Process in the current market would result in an offer being received that is materially better than the offers received from the Evi Marketing Process and the Narraway/Ojay Marketing Process.
- 11.5 Based on the foregoing, it is the opinion of the Monitor that a full and complete sales process was completed by the Financial Advisor prior to the CCAA proceedings, and that it is highly improbable that another post-filing sales process would yield offers for the Core Assets materially in excess of the values forming part of the various expressions of interest detailed above. The Monitor's conclusion in this regard is informed by, among other things, the advice of the Financial Advisor, the nature of Lone Pine Resources' assets, the market conditions that existed during the Sales Process and the CCAA process,

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the Monitor's understanding of the current depressed condition of the market, and the underlying value of the core assets.

- 11.6 The Monitor's independent analysis of the market and comparable transactions indicates the proposed values in the expressions of interest and letters of intent obtained by the Financial Advisor as a result of the Sales Process represent fair value for the assets in today's market.
- 11.7 The Monitor notes that available data of publicly declared asset divestitures in the Western Canadian Basin indicate that there is currently approximately 150,000 boe per day of assets in the market, which the Monitor and Financial Advisor view as a significantly greater than the average of the past few years. This excess supply of producing assets on the market has also contributed to the depressed prices of both producing and non-producing assets. In addition, the Monitor understands that many large senior oil and gas players are looking for strategic partners or asset divestitures that are not publicly disclosed, which would further depress the market.

## 12. BLOW-DOWN SCENARIO AND RESERVE ANALYSIS

- 12.1 As discussed in the first Granger Affidavit, due to capital constraints, the Companies do not have access to the necessary liquidity that would enable completion of planned capital programs. In the event that the Companies cannot implement the Plan and no additional investment was received (meaning the Companies would not be able to conduct any further drilling), and assuming the Syndicate did not enforce its security, Lone Pine Resources would only be able to realize on Proved Developed Producing ("PDP") reserves values through operating and producing from its existing wells (a "Blow-down"). The Monitor has performed a Blow-down analysis, based on the following reserve data, to assess the realizable value of the Oil & Gas Properties under this scenario.

### Reserves

- 12.2 The table below summarizes the Companies' December 31, 2012 reserve values, as calculated by the Companies' independent reservoir engineers, DeGolyer & MacNaughton, which are the basis of the book value of the Companies' assets. Appendix F provides more details on the book values of the Companies' oil and gas properties and the accounting methods employed by Lone Pine Resources. The table presents reserves values in accordance with both the Canadian and SEC reserve reporting requirements:

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12.2.1 Canadian reserves reporting is in accordance with the reserves estimation standards and definitions of Canadian National Instrument 51 – 101 (“**NI 51 – 101**”), Standards of Disclosure for Oil and Gas Activities, and pursuant thereto the Canadian Oil and Gas Evaluation Handbook.

12.2.2 SEC reserve reporting is in accordance with the reserves estimation standards and definitions of Rules 4-10(a) (1)-(32) of Regulation S-X of the SEC.

December 31, 2012 Reserve Report	NPV @ 10%		Future Capital Expenditures Required	
	NI 51 - 101	SEC	NI 51 - 101	SEC
<i>In CAD \$000's</i>				
Proved Developed Producing (PDP)	422,344	258,700	8,200	8,100
Proved Developed Non-producing (PNP)	6,227	1,550	4,800	1,900
Proved Undeveloped (PUD)	154,512	113,348	370,900	380,000
<b>Total Proved</b>	<b>583,083</b>	<b>373,598</b>	<b>383,900</b>	<b>390,000</b>
Probable	483,510	-	691,500	-
<b>Total Proved + Probable</b>	<b>1,066,593</b>	<b>373,598</b>	<b>1,075,400</b>	<b>390,000</b>

The actual realized reserves value is dependent on:

1. Access to significant capital resources so that the required capital programs as contemplated in the reserve report are completed;
2. Actual prices following a forward looking price curve (NI 51 – 101) or flat price (SEC); and
3. Actual production rates unfolding as expected per the reserve report.

12.3 Under both NI 51 – 101 and SEC reserve reporting, in order for the Companies to realize PDP value, approximately \$8 million of future capital expenditures are required. As the PDP reserves are already producing, the nature of the required capital expenditures is less significant as compared to development capital. In order to realize the PUD value, approximately \$370 million to \$380 million would have to be invested in capital programs. These capital programs would be substantial and consist of drilling programs, major work-overs and other significant investments.

#### Blow-down Analysis

12.4 The Monitor has completed an analysis of a Blow-down of the Companies' currently producing reserves (the “**Blow-down Scenario**”) assuming an October 1, 2013 start date and production as forecast in the reserve reports through until 2027. The Blow-

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down Scenario assumes that no further capital can be invested, and existing wells are allowed to run out their forecast production. The Blow-down Scenario analysis is summarized below using both NI 51 – 101 and SEC reserves reporting requirements and is detailed in appendix G.

Per Dec'12 Reserve Report - (000's)	NI 51 - 101	SEC
Proved Developed Producing NPV @ 10%	422,344	258,700
Est. 2013 reserve value produced to Sept 30	(59,100)	(47,400)
<b>Estimated PDP NPV as at Sep 30, 2013</b>	<b>363,244</b>	<b>211,300</b>
Estimated required G&A to operate (NPV @ 10%)	(97,729)	(97,729)
<b>Blowdown Estimated Value (net of G&amp;A)</b>	<b>265,515</b>	<b>113,571</b>
Interest	(196,335)	(196,335)
<b>Blowdown Estimated Value (net of G&amp;A + Interest) available for repayment of secured debt</b>	<b>69,180</b>	<b>(82,764)</b>

Note: Over the estimated life of the reserves, the actual realized cash flows would be subject to price and production curve risk.

- 12.5 The December 2012 reserve NPV figures have been adjusted for the estimated nine months of production through September 30, 2013. The Monitor notes that the reserve report does not account for the G&A costs required to run production for the estimated 15 year life of the reserves. Accordingly, an estimate of G&A costs is deducted from the estimated remaining PDP value as at September 30, 2013.
- 12.6 Ignoring interest costs, in the Blow-down Scenario, the estimated net present value of cash flows is estimated to be between \$114 million to \$265 million under the SEC and NI 51-101 assumptions respectively. A blow-down of the Company's PDP reserves would take approximately 15 years and the estimated net present value of the future cash flows would not be sufficient to repay the Company's total liabilities of approximately \$400 million.
- 12.7 The Monitor notes that in a Blow-down Scenario, debt service payments would still be required as it is highly unlikely that the Syndicate would agree to defer interest during a Blow-down Scenario. Assuming annual interest payments on the Company's current debt positions of approximately \$27.5 million, the estimated net present value of cash flows

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based on the NI 51 - 101 estimates, after accounting for interest, are \$69 million. Under SEC assumptions, cash flows turn negative by 2016.

- 12.8 Estimated recoveries under the Blow-down Scenario are significantly less than the Companies' outstanding liabilities. Accounting for interest payments, recoveries under the Blow-down Scenario would not fully repay the secured amounts owing under the Facility. Accordingly, the Monitor concludes that a Blow-down Scenario is not a viable recovery method for the Companies' producing reserves.

### 13. LIQUIDATION ANALYSIS

- 13.1 As the Blow-down Scenario is not a viable alternative to the Plan, we set out below the Monitor's views on the recoveries available to these creditors under an orderly liquidation, which is the only other alternative to the Plan.
- 13.2 The Monitor has prepared a liquidation analysis (the "**Liquidation Analysis**") which estimates the recoveries assuming an orderly liquidation of all of the assets of the Companies, which is summarized below.

#### Liquidation Analysis As At January 10, 2014

Asset	Liquidation Value		
	High	Low	Note
<b>Core Assets</b>			
Evi Properties	150,000	125,000	1
Narraway/Ojay Properties	75,000	70,000	1
<b>Non-Core Assets</b>			
Quebec Properties	5,000	-	2
Liard Properties	30,000	-	3
Hutch Properties	7,500	5,000	4
Hayter Property and Non-Operated Properties	27,000	20,000	5
<b>Total Estimated Realizations</b>	<b>294,500</b>	<b>220,000</b>	
Estimated Costs of Realization	(10,000)	(15,000)	6
<b>Liabilities</b>			
Estimated DIP Loan (net of cash balance) at Jan 10, 2014	(9,339)	(9,339)	7
Secured Amounts Owing to Syndicate	(188,362)	(188,362)	
<b>Amount available for distribution to unsecured creditors</b>	<b>86,799</b>	<b>7,299</b>	
Unsecured Creditors	(220,000)	(220,000)	8
<b>Surplus (Deficiency)</b>	<b>(133,201)</b>	<b>(212,701)</b>	
Recovery percentage for Affected Unsecured Creditors	39%	3%	

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**Note:** The Liquidation Analysis has been prepared on the basis of an orderly liquidation of the Companies' assets over a period of approximately six months. Asset values are based on recent offers received for the Core Assets and estimates of value for the Non-Core Assets based on comparable transactions (as described previously in this report). The Liquidation Analysis assumes that the operating costs run are funded by accounts receivable collections through the orderly liquidation and offset at a break-even level. The Liquidation Analysis excludes any potential recoveries from potential contingent litigation claims which are discussed later in this report.

**Note 1:** High and low realization value equal to the highest and second highest offers received in the respective marketing processes for the Evi Properties and the Narraway/Ojay Properties.

**Note 2:** Estimate of potential value of Quebec Properties.

**Note 3:** Estimate based on selling 53,000 acres at between \$0 and \$565 per acre.

**Note 4:** As no development has occurred on the Hutch Properties, the high estimate is equal to the 2012 acquisition cost of the Hutch Properties. The low estimate assumes a discount of approximately 33% to the 2012 acquisition cost.

**Note 5:** Estimate based on comparable per flowing barrel transactions pricing. Low scenario assumes a 25% discount to high value.

**Note 6:** Costs of realization include estimates of operating and holding costs incurred during the liquidation, as well as professional fees and sales commissions.

**Note 7:** Estimated \$10 million draw on DIP Loan, net of closing cash balance, as at January 10, 2014, per the November 23 Cash Flow Forecast filed with the Court.

**Note 8:** Estimated unsecured claims of \$220 million are based on the anticipated accepted claims. In the event of a liquidation, there would be additional claims of employees, critical suppliers and joint venture partners and other trade creditors who have continued to support the Companies during the CCAA proceedings.

13.3 The total estimated realizable value of Lone Pine Resources' assets in the Liquidation Analysis outlined above is between \$220 million and \$295 million in the low and high scenario respectively. This amount is significantly less than the Companies' secured and unsecured liabilities of approximately \$418 million. The Liquidation Analysis indicates that a realization of between 3 cents on the dollar to 39 cents on the dollar may be realized by unsecured creditors in an orderly liquidation.

13.4 It is important to note that the low scenario does not necessarily represent a 'worst case' scenario and there is the potential for additional downside to the Monitor's Liquidation Analysis. Furthermore, the Liquidation Analysis assumes that the Companies will be able to sell all of their assets. In the event that the Companies are unable to sell all of their

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assets, the Companies may be forced to expend what could be significant costs in performing the abandonment and environmental cleanup of certain properties.

- 13.5 The Monitor notes that at the time of writing this Sixth Report, the spot price of natural gas has recently increased. The Monitor does not consider this increase to be an event that would materially impact the value of the Core Assets, as potential purchasers of the Narraway/Ojay Properties would not have priced their offers based on spot prices for natural gas, but instead based their offers on a forward price curve of future prices for the underlying commodity. Day-to-day and seasonal swings in natural gas prices are normal and would be built into a forward price curve as well as being part of the expectation of any potential purchaser of the Core Assets.
- 13.6 Additionally, the Monitor notes that the offers received in the Sales Process, which have been used in the Liquidation Analysis, are non-binding proposals or verbal expressions of interest. As a result, there is significant risk that Lone Pine Resources would not be able to close on the offers, or that the purchase price may be reduced during further negotiations with the counter-parties. The Monitor notes that the Companies' production levels have declined since the conclusion of the Sales Process, which would further decrease values, and the Monitor is aware of a number of recent asset sales which have attracted little or no interest due to the excess supply in the market. These factors may result in a materially lower realization for the Core Assets than the values indicated in the Liquidation Analysis.
- 13.7 Given the current market conditions and uncertainty associated with realizing upon the Companies' assets, and the factors discussed above, the Monitor would expect that a liquidation of the Companies' assets would likely result in a realization that would trend toward the lower end of the Liquidation Analysis value recovery range.

#### **14. MONITOR'S COMMENTARY ON THE PLAN**

##### **Affected Unsecured Creditors – Cash Pool Creditors**

- 14.1 The Plan provides that Creditors with Affected Unsecured Claims of up to \$10,000 will receive their pro-rata share of the Cash Pool of \$700,000. Additionally, it is expected that certain Affected Unsecured Creditors holding Affected Unsecured Claims greater than \$10,000 may make a Cash Election to reduce their claim to the \$10,000 Cash Pool Cap, in which case they shall also receive their pro-rata share of the Cash Pool under the Plan. The maximum distributable amount from the Cash Pool is \$700,000.

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- 14.2 Assuming trade creditors with Affected Unsecured Claims of less than \$20,000 make a Cash Election, the Monitor estimates that Cash Pool Creditors, which will represent approximately 85% of trade creditors, will receive a far higher return from the Cash Pool Creditor's Pro-Rata Share of the Cash Pool pursuant to the Plan than they would receive in a liquidation. However, Affected Unsecured Creditors with balances greater than \$20,000 who make the Cash Election may recover less than they would receive in a liquidation, if recoveries are at the higher end of the liquidation range.
- 14.3 The Monitor does not view this as an issue with respect to the fairness of the Plan, as these Affected Unsecured Creditors are knowingly electing into the Cash Pool based on their individual analysis of the Plan and their own liquidity preferences/requirements.

#### **Affected Unsecured Creditors (other than Cash Pool Creditors)**

- 14.4 In summary, as detailed in section 5 of this report, the Plan provides that each Affected Unsecured Creditor (other than Cash Pool Creditors) with an Allowed Affected Unsecured Claim will receive their pro-rata share of newly issued LPRC Class A Voting Common Shares and LPRI Class A Voting Common Shares (the "**New Shares**"). In the Monitor's view, the key relevant matters of note with respect to the New Shares are:
- 14.4.1 While the final number of New Shares to be issued to Affected Unsecured Creditors has not been determined, a sufficient number of New Shares will be issued such that all Affected Unsecured Creditors will receive an appropriate allocation based on their respective pro-rata allocation of the New Shares;
- 14.4.2 Due to the \$100 million to \$110 million of LPRC Preferred Shares being issued as a part of the New Investment, it is expected that, on a fully diluted basis, the LPRC Class A Voting Common Shares distributed to Affected Unsecured Creditors will be diluted down to an effective interest of approximately 25% of the equity of LPRC after Plan implementation;
- 14.4.3 Due to the Accretion Rate of 10% per year on the LPRC Preferred Shares, on a fully diluted basis, the LPRC Class A Voting Common Shares distributed to Affected Unsecured Creditors will be further diluted with the passage of time until the LPRC Preferred Shares are redeemed or converted;
- 14.4.4 Under the Plan, Affected Unsecured Creditors who are Qualified Unsecured Creditors and want to avoid being diluted, are being given an equal opportunity



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to participate in their pro-rata share of the New Investment, as well as participate as a Backstopper under the Plan to share in their pro-rata share of the Backstopper Payment Amount of approximately \$4 million;

- 14.4.5 As detailed in the Companies' Information Circular, the New Shares will not be publicly listed on a securities exchange and there is no guarantee that an active trading market will develop for the New Shares. Accordingly, Affected Unsecured Creditors receiving New Shares may not be able to resell their New Shares; and.
- 14.4.6 A valuation has not been performed on the pro-forma restructured Companies. The value, if any, of the Companies post-CCAA emergence is unknown at this time. The Company has advised the Monitor that it will provided Affected Unsecured Creditors, upon their execution of a non-disclosure agreement, the financial and capital plans of the recapitalized Companies with which they can form their views on the Companies' future prospects.
- 14.5 In assessing whether the New Share consideration to be distributed to Affected Unsecured Creditors under the Plan is superior to the value that may be received in a liquidation, the Monitor highlights the following:
  - 14.5.1 With respect to the distribution of New Shares (and with the exception of the Cash Pool Creditors who will not receive New Shares), Affected Unsecured Creditors of the Companies are all treated equally, as the Plan distributes the New Shares to all Affected Unsecured Creditors on a pro-rata basis;
  - 14.5.2 The implied value of the New Shares, following the dilution resulting from the New Investment, is approximately \$33 million, on the basis that the participants in the New Investment will receive 75% of the equity of the Companies for their \$100 million investment. With an implied value \$33 million, the Affected Unsecured Creditors will receive consideration in New Shares that is greater than the low range of the liquidation values, which the Monitor assesses as a more likely representation of liquidation value given the current market conditions;
  - 14.5.3 Every Affected Unsecured Creditor that is a Qualifying Unsecured Creditor, is being given an equal opportunity to participate in their pro-rata share of the New Investment, as well as participate as a Backstopper under the Plan, which allows any such electing Affected Unsecured Creditor to prevent itself from being diluted by the New Investment and the Accretion Rate on the LPRC Preferred Shares;

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- 14.5.4 The New Investment will allow the Companies to further develop the Core Assets, which may further increase the value of the Companies. The Monitor can confirm that the 2014 drilling program commenced in November 2013 in anticipation of a successful CCAA restructuring and recapitalization; and
- 14.5.5 The restructured Companies may be able to generate additional capital to develop non-core undeveloped assets such as the Liard Properties and the Hutch Properties in the medium to longer term, which may further increase the longer term value of the Companies.
- 14.6 The Initial Consenting Noteholders and other Affected Unsecured Creditors that are party to the Support Agreement (the “**Consenting Creditors**”) represent approximately 70% of the value of the Affected Unsecured Claims, are providing the majority of the New Investment, and are backstopping the full New Investment amount. The Monitor considers these Consenting Creditors to be a group of sophisticated investors that consider the Plan, combined with the New Investment, will provide a return that is superior to the return from an orderly liquidation.

#### Summary Distribution Table

- 14.7 The table below summarizes the proposed distributions under the Plan:

Class	Estimated claims	Proposed Plan Distribution	Value of Proposed Plan Distribution
Affected Unsecured Creditors	Senior Notes: \$213.7 million Other Affected Unsecured Creditors: \$6 million	Pro-rata share of newly issued: 1) LPRC Class A Voting Common Shares; 2) LPRI Class A Voting Common Shares; and 3) If a Backstopper, pro-Rata Share of the approximately \$4,000,000 Backstop Amount (4% of the New Investment Amount)	100% of new LPRC and LPRI Class A Voting Common Shares representing approximately 25% of equity of Companies on fully diluted basis after New Investment. Implied value of approximately \$33 million
Cash Pool Creditors	Approximately \$300K of Cash Pool Claimants with claims less than \$10K.  Unknown number of Cash Elections.	Pro-Rata share of Cash Pool	\$700,000

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#### Existing Shareholders

- 14.8 As noted above, the Plan proposes cancelling all of the existing shares of LPRI for no consideration. Therefore, the Plan does not contemplate any recovery for existing shareholders of LPRI. Furthermore the Plan proposes that only Affected Unsecured Creditors are eligible to vote on the Plan and therefore Existing Shareholders will not vote on the Plan or attend the Meetings.

#### Other Considerations

- 14.9 The Plan meets the criteria outlined in Section 6 of the CCAA, namely in respect of the treatment of certain priority payments.
- 14.10 The Plan is conditional upon the Sanction Order being granted. The Sanction Order is to exclude the applicability of Section 36.1 of the CCAA and Sections 95 to 101 of the *Bankruptcy and Insolvency Act* (the "BIA") and any other provincial or federal law relating to preferences, fraudulent conveyances, or transfers at undervalue to the Plan or to any payments, distributions, transfers, allocations or transactions made or contemplated in connection with the Recapitalization, whether before or after the Filing Date, including, without limitation, to any and all of the payments, distributions, transfers, allocations or transactions contemplated by and to be implemented pursuant to the Plan. The Monitor is unaware of any reason why such a provision in the Sanction Order would not be appropriate under the circumstances.

#### 15. MONITOR'S CONCLUSION ON FAIRNESS AND REASONABLENESS OF THE PLAN

- 15.1 The Monitor has developed its conclusion on the fairness and reasonableness of the Plan taking into account the interests of numerous stakeholders having various interests in the Companies and the Plan and the current economic realities, including the demands of the Syndicate. The Monitor and its counsel have expended a significant amount of time and effort in thoroughly analyzing the values of each Core Asset and Non-Core Asset of the Companies, as well as certain other potential recoveries from potential contingent litigation claims.
- 15.2 In summary, the Companies require new capital to fund their drilling programs and restructure their balance sheet. The Plan has been developed after 15 months of extensive work by management and its financial advisors to explore all strategic options.

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- 15.3 The Plan represents a compromise in which Affected Unsecured Creditors will recapitalize the Companies through the conversion of their claims to New Shares and each Affected Unsecured Creditor is being given an equal opportunity to participate in their pro-rata share of the New Investment.
- 15.4 In the Monitor's view:
- 15.4.1 The Plan provides for payments to Cash Pool Creditors which will exceed the payment that the Cash Pool Creditors would likely receive in a liquidation;
- 15.4.2 Pursuant to the Plan, all non-Cash Pool Affected Unsecured Creditors are being treated equally:
- 15.4.2.1 The Plan provides that Affected Unsecured Creditors will each receive their pro-rata interest in all of the assets of the Companies post Plan implementation through their pro-rata ownership of the New Shares;
- 15.4.2.2 Every Affected Unsecured Creditor that is a Qualifying Unsecured Creditor, is given an equal opportunity to participate in their pro-rata share of the New Investment, as well as participate as a Backstopper under the Plan; and
- 15.4.2.3 The New Shares will have an implied value of approximately \$33 million which is greater than the low range of the potential recoveries for unsecured creditors under a liquidation. However, the Monitor reiterates that fact that there is no certainty that Affected Unsecured Creditors who receive these shares will be able to trade them unless a liquidity event such as a public offering or a secondary market develops in the future;
- 15.4.3 The implementation of the Plan is beneficial as it will result in the preservation of the business as a going concern, thereby providing additional benefit to employees, suppliers and joint venture partners; and
- 15.4.4 Based on the Liquidation Analysis and the Monitor's analysis and conclusion relative to the recoveries for the contingent litigation claims, the Existing Shareholders have no economic interest in the Companies.
- 15.5 Accordingly, it is the Monitor's view that the Plan is fair and reasonable including the fact that the Plan provides no recovery for Equity Claimants.

## LONE PINE RESOURCES, ET AL

### MONITOR'S SIXTH REPORT TO COURT DECEMBER 10, 2013

#### 16. OTHER POTENTIAL RECOVERIES

- 16.1 The Monitor has performed an analysis of the potential recoveries that might arise as a result of the prosecution of the NAFTA claim described below (the "**NAFTA Claim**") in addition to causes of action identified by certain shareholders that might be asserted by LPRI as against Forest Oil relating to the IPO and spin-off of Lone Pine in 2011 (the "**Spin-Off Claims**"). An overview of these claims is set out below.
- 16.2 As part of this analysis, the Monitor and its Canadian and US counsel have had access to certain confidential internal Lone Pine Resources and Forest Oil documents as well as Lone Pine Resources documents that are privileged. The Monitor is in the process of preparing a Confidential Supplemental Report to the Sixth Monitor's Report which will provide a comprehensive and detailed analysis of the Monitor's findings, analysis and conclusion with respect to the NAFTA Claim and the Spin-Off Claims, which will be filed at a later date with the Court under seal and only available to certain parties.

#### **NAFTA Claim**

- 16.3 LPRI, and its predecessors expended approximately \$13 million to obtain permits and approvals from the Government of Quebec to mine for oil and gas beneath the St. Lawrence River. On May 12, 2011, the Government of Quebec introduced new legislation that revoked one of the five permits pertaining to drilling for oil and gas resources beneath the St. Lawrence River. The legislation was passed on June 10, 2011 and received Royal Assent three days later
- 16.4 As a result of the Government of Quebec revoking the permit to develop certain properties beneath the St. Lawrence River, LPRI launched a NAFTA Chapter 11 Arbitration Claim (the "**Arbitration Claim**") against the Government of Canada on behalf of LPRC. The Arbitration Claim relates to the Government of Quebec's action, which LPRI alleges violated Canada's obligations under NAFTA Chapter 11 in relation to the business of LPRI's Canadian subsidiary LPRC. The Arbitration Claim seeks damages in an amount to be proven in the arbitration proceedings. LPRI indicated in the Arbitration Claim that its estimate of damages as at September 6, 2013 is in excess of \$250 million.

## LONE PINE RESOURCES, ET AL

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#### SPIN-OFF CLAIMS

- 16.5 On May 26, 2011, Forest Oil caused LPRI to commence an initial public offering whereby LPRI offered and sold 15 million shares to the public at a price of US\$13.00 per share, and listed its common stock on the New York Stock Exchange and the Toronto Stock Exchange (the “**IPO**”). The IPO closed on June 1, 2011. 15 million shares were sold and net proceeds in the amount of approximately \$178 million were received.
- 16.6 In order to facilitate the IPO, Forest Oil contributed, immediately prior to the IPO, all of the shares it directly held in LPRC (as well as its interests in Wiser Oil and Wiser Delaware, though which Forest Oil indirectly held all remaining shares of LPR Canada) to LPRI in exchange for 69,999,999 shares of common stock of LPRI and cash consideration of US\$29 million. LPRI used the proceeds from the IPO, together with borrowings under a third party credit facility, to repay intercompany obligations previously owing to Forest Oil. As a result of the IPO transactions, Forest Oil owned more than 80% of the then outstanding share capital of LPRI immediately after the IPO. Pursuant to a Separation and Distribution Agreement dated May 25, 2011 between LPRI and Forest Oil the framework was established relating to the subsequent stock dividend by Forest Oil to its shareholders of its remaining 70,000,000 shares of common stock of LPRI (the “**Spin-Off**”).
- 16.7 The Monitor through its US and Canadian Counsel has undertaken an extensive review of potential causes of action that certain stakeholders have alleged may have arisen in connection with the IPO and Spin-Off. The potential causes of action that the Monitor has analyzed under Delaware law are as follows:
1. Intentional fraudulent transfer against Forest Oil;
  2. Constructive fraudulent transfer against Forest Oil;
  3. Recharacterization against Forest Oil;
  4. Breach of fiduciary duty against the directors and officers of LPRI;
  5. Breach of fiduciary duty against the directors and officers of Forest Oil;
  6. Aiding and abetting a breach of fiduciary duty against Forest Oil;
  7. Breach of fiduciary duty as a promoter against Forest Oil;
  8. Liability against the directors of each of LPRI and Forest Oil for unlawful payment of dividends; and
  9. Unjust enrichment against Forest Oil.

**LONE PINE RESOURCES, ET AL**

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- 16.8 The Monitor has also considered potential avoidance actions that certain stakeholders have alleged may be commenced under Canadian law (transfers at undervalue or preferences) in respect of the Spinoff and in respect of any and all asset dispositions consummated in the applicable periods prior to commencement of the CCAA proceedings in addition to oppression claims against Forest Oil under the *Business Corporations Act*, RSA 2000, c B-9 (the "ABCA"), having regard to the fact that Forest Oil was an affiliate of both LPRI and LPRC prior to the Spin-Off.

**Conclusion**

- 16.9 As will be detailed in the Confidential Supplement, the Monitor's US and Canadian Counsel have provided an extensive analysis of the viability of the NAFTA Claim and Spin-Off Claims together with their view of possible damages recoverable by LPRI. The Monitor has considered such analysis and concluded that the quantum of the potential recoveries to Lone Pine Resources in connection with the NAFTA Claim and the Spin-Off Claims is not sufficient to alter its conclusion that the Plan is fair and reasonable including, without limitation, the fact that the Plan provides no recovery for Equity Claimants.

This report is respectfully submitted this 10<sup>th</sup> day of December, 2013.

**PricewaterhouseCoopers Inc.**  
**Court Appointed Monitor of**  
**Lone Pine Resources Inc. et al**



**Paul Darby**  
**Senior Vice President**



**Jamie Cartwright**  
**Vice President**

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**APPENDIX A**

**SEC definition of Accredited Investor**



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U.S. Securities and Exchange Commission

## Accredited Investors

Under the Securities Act of 1933, a company that offers or sells its securities must register the securities with the SEC or find an exemption from the registration requirements. The Act provides companies with a number of exemptions. For some of the exemptions, such as rules [505](#) and [506](#) of [Regulation D](#), a company may sell its securities to what are known as "accredited investors."

The federal securities laws define the term accredited investor in [Rule 501 of Regulation D](#) as:

1. a bank, insurance company, registered investment company, business development company, or small business investment company;
2. an employee benefit plan, within the meaning of the Employee Retirement Income Security Act, if a bank, insurance company, or registered investment adviser makes the investment decisions, or if the plan has total assets in excess of \$5 million;
3. a charitable organization, corporation, or partnership with assets exceeding \$5 million;
4. a director, executive officer, or general partner of the company selling the securities;
5. a business in which all the equity owners are accredited investors;
6. a natural person who has individual net worth, or joint net worth with the person's spouse, that exceeds \$1 million at the time of the purchase, excluding the value of the primary residence of such person;
7. a natural person with income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year; or
8. a trust with assets in excess of \$5 million, not formed to acquire the securities offered, whose purchases a sophisticated person makes.

For more information about the SEC's registration requirements and common exemptions, read our brochure, [Q&A: Small Business & the SEC](#).

<http://www.sec.gov/answers/accred.htm>

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**APPENDIX B**

**Evi Properties Teaser**



## Slave Point Light Oil Opportunity

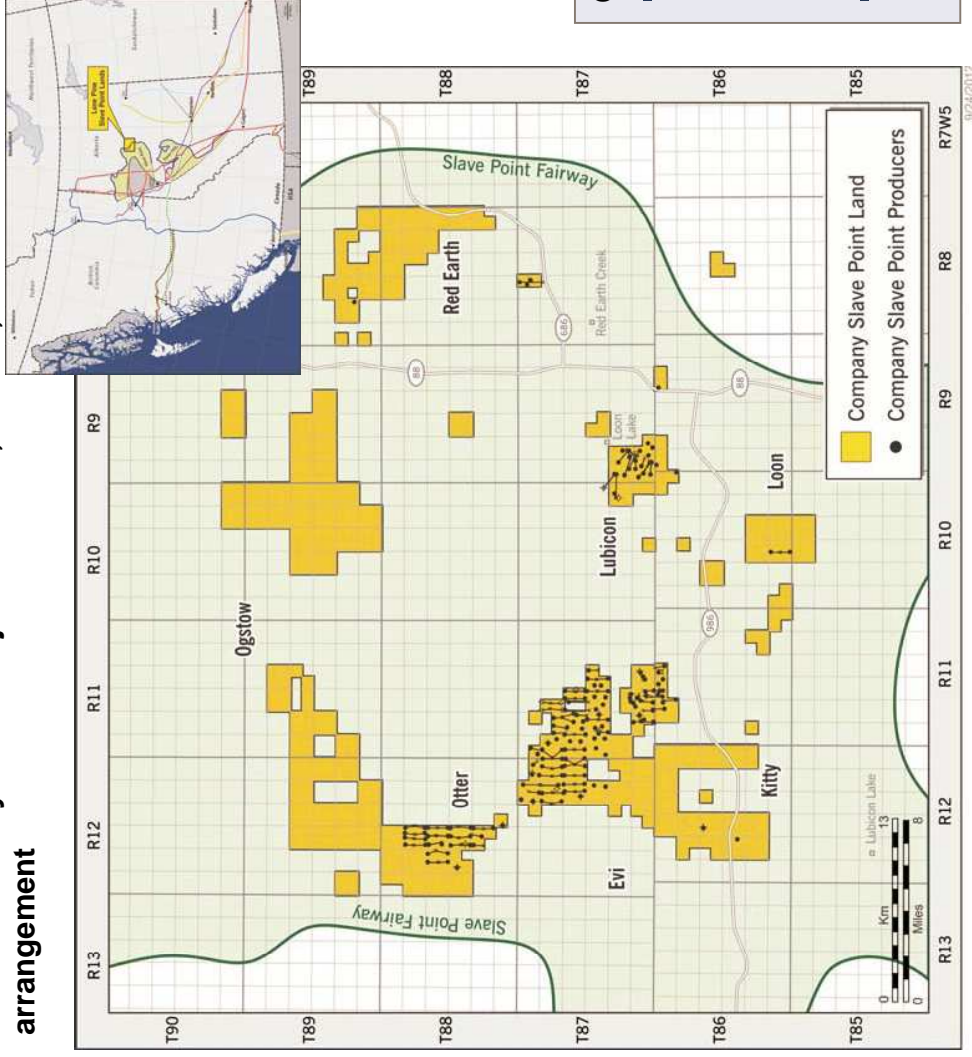
September 2012



RBC Capital Markets®

# Slave Point Light Oil Opportunity

Lone Pine Resources Inc. (“Lone Pine” or the “Company”) has retained RBC Capital Markets (“RBC”) as its exclusive agent to coordinate a process to solicit and evaluate proposals to accelerate value realization from its interest in the Slave Point light oil resource play located in the greater Evi area of Alberta, Canada. Transaction alternatives may include a joint venture, farm-in, or other arrangement



## Opportunity Highlights

- **Light oil resource play:** 81,535 net acres in the core of ongoing Evi Slave Point development, with estimated OOIP of 635 to 1,270<sup>(1)</sup> MMBbls on Company lands
- **Established high netback production:** Developed infrastructure with Q2 net production of 3,689 bbl/d (39° API) light sweet oil from 94<sup>(2)</sup> horizontal and 53<sup>(2)</sup> vertical gross locations
- **Significant drilling inventory:** 237 P+P net drilling locations at Dec. 31, 2011 and 300+<sup>(3)</sup> other identified drilling locations (both infill and step-out) supported by geological mapping from over 2,500 Slave Point penetrations in the region
- **Development economics:** Low capital development locations providing attractive on stream costs of ~\$20,000<sup>(4)</sup> per flowing barrel and rates of return of ~50<sup>(4)</sup>% before tax, on a per well basis
- **Company controlled pace of development:** Company lands are largely 100% working interest and 95% operated allowing for controlled pace of development and capital investment

## Company Overview

- Lone Pine is a ~\$580<sup>(5)</sup> million enterprise value, independent exploration, production and development company with a 10 year track record of successful growth in Canada; the Company trades on both the Toronto (TSX) and New York (NYSE) stock exchanges
- Lone Pine has been the leading developer of the Slave Point since drilling its first multi-frac horizontal well into the play in 2005

1 (1) Estimated Original Oil In Place based on 127 net sections and resource of 5-10 MMbbls/section per industry estimates / (2) As at August 2012

(3) Other identified drilling locations as based on geological mapping and internal estimates of hydrocarbon resource potential

(4) RBC illustrative Evi area 105 Mbbl EUR short horizontal Slave Point well and flat US\$100/bbl WTI

(5) As at Sept. 21, 2012



# Historical Slave Point Development Activity Proven Resource Play, Highly Competitive Landscape

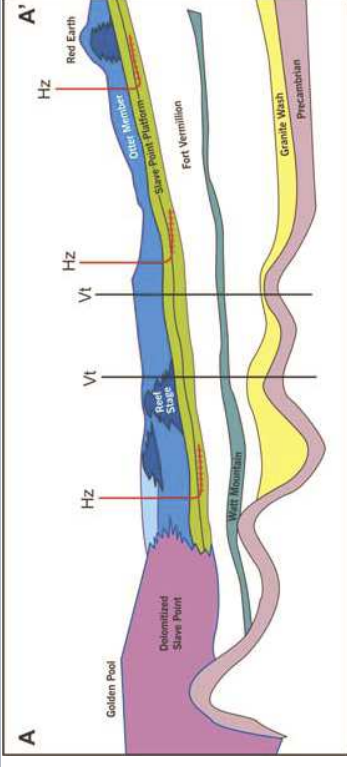
## Area Activity

- Lone Pine acreage acquired early and situated in the heart of the resource fairway, surrounded by industry development
- Area players such as Penn West, Harvest, Pinecrest and others continue to actively develop the play, committing large capital budgets for 2012
- Companies now focused on low risk infill and step out drilling with more than 380<sup>(1)</sup> wells licensed into the play

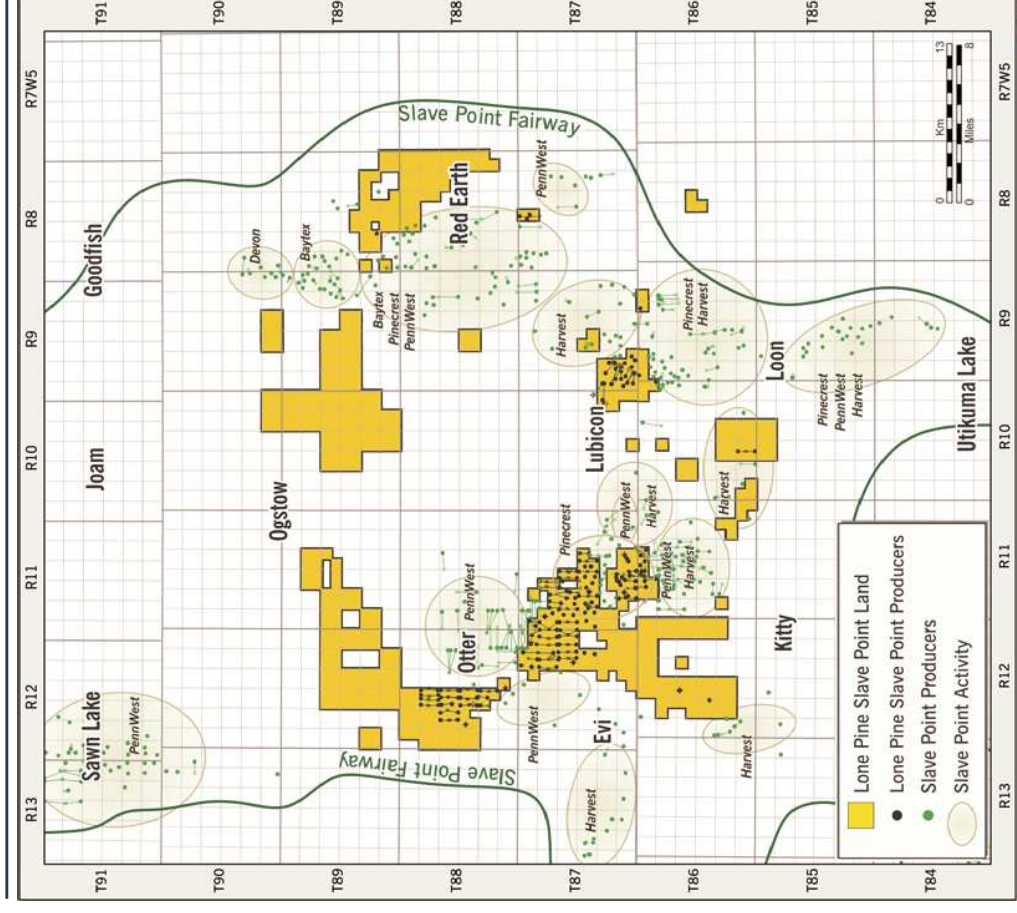
## Proven Reservoir Performance and Predictable Geology

- Light sweet crude oil (39° API) from regionally extensive carbonate platform, delivering high productivity wells
- Resource potential well defined with over 2,500 well penetrations (from historical deeper conventional development)
- NI 51-101 P+P reserves of 35.8 MMBbls at Dec. 31, 2011
- Thick tight carbonate resource yielding on average 5-10<sup>(2)</sup> MMBbl of OOIP on a per section basis, supporting downspacing opportunities
- Industry estimated primary recovery factor of 15 to 20%, with potential to increase recovery up to 30% via future water flooding
- Shallow depths (1,200 to 1,500 m) resulting in attractive drilling and completion costs

## Regional Depositional Environment



## Regional Development Activity

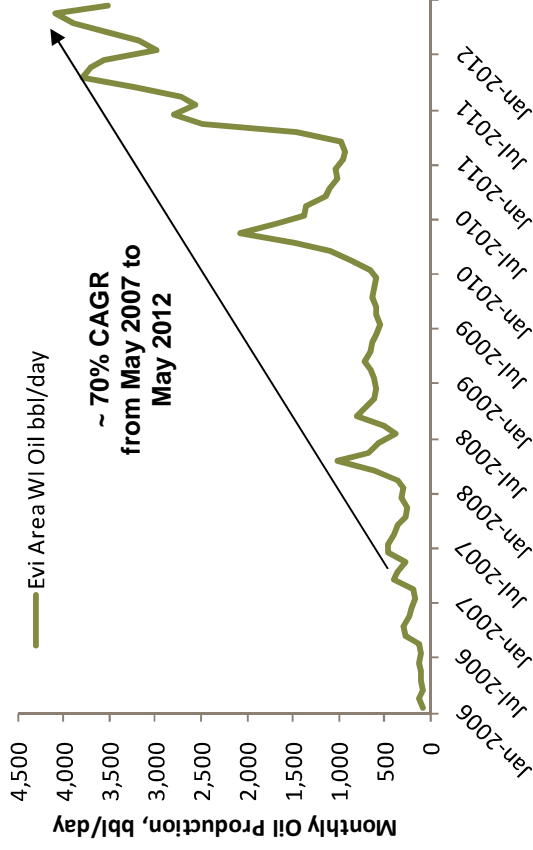


Source: Lone Pine, Geoscout, RBC Rundle

2 (1) Source: Geoscout as at Sept. 2012  
(2) As per industry estimates

# Slave Point Development Upside Experienced Operator, Significant Upside Inventory

## Lone Pine Slave Point Production Growth<sup>(1)</sup>



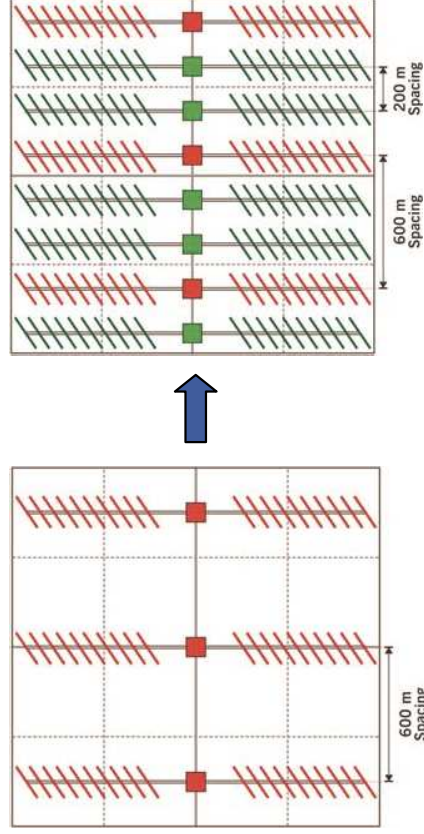
## Industry Leading Results; Identified Development Plan

- Lone Pine is a top tier, experienced operator with 94<sup>(2)</sup> horizontal wells completed in the Slave Point Formation since 2005
  - 137 gross / 127 net Slave Point sections, 95% operated lands
- Systematically pursuing low risk infill and step out locations
  - Maximize capital efficiency by evaluating per section potential and highgrading downspacing opportunities
- 237 NI 51-101 P+P net drilling locations at Dec. 31, 2011 and 300+ other identified drilling locations

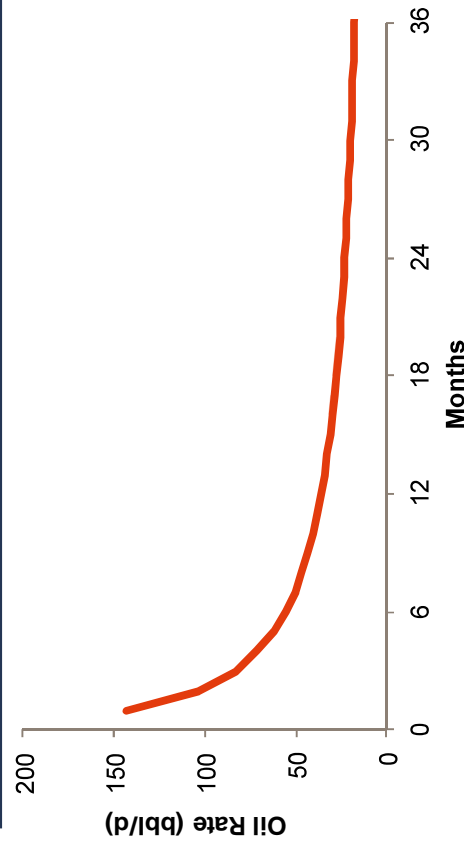
## Future Upside – Infill Drilling and Waterflood

- Lone Pine and industry are evaluating waterflood potential based on successful area analogues (Loon waterflood in operation since 1992)
- Waterflood has potential to significantly increase recovery factor and realize unbooked future upside

## Current vs. Regulatory Approved Drilling Density



## Illustrative Evi Area Short Horizontal Type Curve<sup>(3)</sup>



3 (1) Lone Pine Evi, Red Earth and Loon Slave Point historical working interest production as per Geoscout up to June 30<sup>th</sup>, 2012

(2) As at August 2012

(3) RBC illustrative Evi area 105 Mbbl EUR short horizontal Slave Point well

# Next Steps and Key Contacts

## Process Overview

- **Confidentiality Agreement:** Please contact the RBC contacts listed to receive a Confidentiality Agreement
- **Confidential Information:** Will be made available to participants via a virtual data room upon signing a Confidentiality Agreement
- **Submission of Proposals:** Detailed instructions for submitting a Proposal will be distributed in advance of the deadline to those that execute a Confidentiality Agreement
- **Inquiries:** All inquiries and requests shall be submitted or directed to the RBC individuals listed as contacts. Lone Pine, its subsidiaries and affiliates should not be contacted directly
- **Management Presentations:** Lone Pine representatives will provide technical presentations in Calgary to interested parties who have executed a Confidentiality Agreement



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RBC Rundle

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# Cautionary Statements

None of Lone Pine Resources Inc. ("Lone Pine" or the "Company"), RBC Capital Markets or any of their respective subsidiaries or affiliates or any of their respective officers, directors, shareholders, employees, consultants, advisors, agents or representatives (collectively, "Representatives") make any representation or warranty, express or implied, in connection with any of the information made available pursuant to the transaction process described in this Memorandum, including, but not limited to the assets described herein (the "Assets"), or the past, present or future value of the anticipated production, reserve or resource potential, cash flows, income, costs, expenses, liabilities and profits, if any, to be derived from the Assets. Accordingly, any interested party receiving such information will rely solely upon its own independent examination and assessment of any such information in making a decision on whether and how to submit a proposal in respect of any or all of the Assets. Only such representations or warranties that are contained in a definitive agreement with respect to a transaction, if, as and when executed by the parties thereto, and subject to such conditions or limitations or restrictions as may therein be specified, shall have any legal effect. None of Lone Pine, RBC Capital Markets or any of their subsidiaries, affiliates or Representatives shall have any liability to any party receiving information pursuant to the transaction process described herein, nor to any affiliate, partner, member, officer, director, shareholder, employee, consultant, advisor, agent or representative of such party from the use of any such information in assessing whether and how to submit a bid in respect of any or all of the Assets.

This Memorandum is for informational purposes only and is not intended to be an offer that is capable of acceptance or create any binding obligation on Lone Pine or RBC Capital Markets, contractual or otherwise, to enter into any transaction with anyone receiving this Memorandum. Lone Pine and RBC Capital Markets also reserve their right at any time to and without prior notice and without assigning any reason therefore, (i) to terminate the further participation by a recipient or any other person or entity in the transaction process, (ii) to modify any of the rules or procedures relating to such process, (iii) to terminate entirely such process and (iv) to amend or supplement the information provided herein. No representation or warranty (whether express or implied) has been made by Lone Pine, RBC Capital Markets or any of their subsidiaries, affiliates or Representatives with respect to the transaction process or the manner in which the transaction process is conducted and any party receiving this Memorandum disclaims any such representation or warranty. Lone Pine, RBC Capital Markets and any of their subsidiaries, affiliates or Representatives are under no obligation to negotiate with or accept any offer or proposal by any person or entity regarding a transaction.

For convenience, references in this document to "Lone Pine", the "Company", "we", "us" and "our" may, where applicable, refer to and include any relevant direct and indirect subsidiary corporations of Lone Pine Resources Inc., and the assets, activities and initiatives of such subsidiaries.

## Advisory on Forward-Looking Information

This Memorandum contains forward-looking statements and information within the meaning of applicable United States and Canadian securities legislation, including Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934 ("forward-looking statements") with respect to Lone Pine and the Assets. This information is being provided solely in connection with a potential transaction involving any or all of the Assets, and not for any other purpose, including the purchase of any securities of Lone Pine. Any forward-looking statements or information regarding the Assets are provided subject to the disclaimers and obligations of confidentiality outlined above. The forward-looking statements in this Memorandum is based on management's current beliefs, expectations and assumptions, based on currently available information as to the outcome and timing of future events. Lone Pine cautions that its future oil, natural gas and natural gas liquids production, revenues, cash flows, liquidity, plans for future operations, expenses, outlook for oil and natural gas prices, timing and amount of future capital expenditures, and other forward-looking statements are subject to all of the risks and uncertainties normally incident to the exploration for and development and production and sale of oil and gas.



# Cautionary Statements

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## Reserves

The estimates of our reserves disclosed in this Memorandum have been prepared in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) of the Canadian Securities Administrators and are based on a report from DeGolyer and MacNaughton, an independent petroleum engineering firm, evaluating our reserves as of December 31, 2011. The standards of NI 51-101 differ from the standards of the SEC, and therefore, the reserves disclosure contained in this Memorandum will differ from the information contained in the most of the periodic reports Lone Pine files with the SEC and on SEDAR. Additional information regarding Lone Pine's reserves estimates and other oil and gas information prepared in accordance with NI 51-101 is contained in Lone Pine's Statement of Reserves Data and Other Oil and Gas Information (Form 51-101F1) filed on SEDAR on March 22, 2012. Other oil and gas information for Lone Pine, including acreage position and estimates of drilling locations, were prepared by Lone Pine's internal staff of engineers in accordance with the requirements of NI 51-101.

In this Memorandum, Lone Pine also uses internal estimates of quantities of oil and gas using certain terms, such as "resource potential," "original oil in place," "EUR" or other descriptions of volumes of resources potentially recoverable through additional exploratory drilling or recovery techniques, which terms include quantities of oil and gas that may not meet either the SEC's or NI 51-101 definitions of definitions of proved, probable and possible reserves, and which applicable SEC guidelines and NI 51-101 strictly prohibit Lone Pine from including in periodic filings. These estimates are by their nature more speculative than proved reserves determined under applicable SEC guidelines or NI 51-101, have not been risked by Lone Pine, and accordingly are subject to substantially greater risk of being recovered by Lone Pine. Lone Pine also describes internal estimates of identified drilling locations, which are not, and should not be taken to represent, proved undeveloped drilling locations.

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**APPENDIX C**

**Summary of 2013 Oil Transactions**

**Appendix X**  
**2013 Oil Transactions**

Acquiror	Target	Date Announced	Value (\$millions)	Oil % (Proved + Prob)	Proved Reserves \$/BOE	P+P Reserves \$/BOE	Reserve Value per Production \$/BOE/d
TORC	Pengrowth assets	9-Sep-13	490.00	93%	31.78	22.97	85,965
Surge Energy Inc	Cenovus Energy Inc. assets	11-Jun-13	238.58	100%	42.03	22.46	48,809
Whitecap Resources Inc.	Barrick Energy Inc. assets	27-Jun-13	173.60	73%	15.68	11.38	59,848
Whitecap Resources Inc.	Saskatchewan assets (Harvest?)	29-Apr-13	110.00	94%	30.18	24.49	122,222
Raging River	Enerplus	22-Oct-13	105.00	100%	30.70	22.70	116,667
Whitecap	Unspecified	28-Oct-13	90.00	100%	19.10	12.82	88,235
Unspecified	Anderson	16-Sep-13	82.00	100%	n/a	n/a	82,000
Undisclosed Buyers	Enerplus Corporation assets	27-Jun-13	79.44	94%	20.41	14.94	79,440
Venturion	Barrick assets	30-Aug-13	58.50	85%	13.01	9.00	63,795
Legacy Oil + Gas Inc.	Enerplus Corporation assets	3-Apr-13	57.06	75%	n/a	11.94	81,592
Long Run	Apache	13-Sep-13	55.00	100%	n/a	n/a	36,667
Undisclosed Buyer	Santonia assets	17-Sep-13	22.00	100%	13.75	9.57	46,809
Undisclosed Buyer	Storm Resources Ltd. assets	23-Jan-13	18.00	80%	20.69	15.79	65,455
Undisclosed Buyer	Harvest Operations Corp. assets	1-Jan-13	15.77	65%	22.21	18.55	33,317
Toscana Energy Income Corporation	WCSB Oil & Gas 2010 Corp. and LP assets	3-Apr-13	15.24	51%	36.11	26.60	55,151
Toscana Energy Income Corporation	Predator Oil Ltd. Assets	26-Feb-13	11.97	81%	23.84	18.36	50,014
Venturion Oil Limited	Signalta Resources Limited assets	16-Jan-13	11.20	80%	25.99	20.07	85,279
Quattro Exploration and Production	Central Global Resources ULC Assets	21-Mar-13	7.30	60%	4.08	2.37	12,572

<b>Average</b>	<b>91.15</b>	<b>85%</b>	<b>23.30</b>	<b>16.50</b>	<b>67,435</b>
High	490.00	100%	42.03	26.60	122,222
Low	7.30	51%	4.08	2.37	12,572

**High Outliers**

Surge Energy acquisition (\$42.03 per boe for 1P and \$22.46 for 2P) – medium gravity oil reserves in southwest Saskatchewan with key infrastructure in place and large inventory of unbooked oil locations on the acquired lands.

Toscana Energy acquisition (\$36.11 per boe for 1P and \$26.60 for 2P) - diversified portfolio of oil and gas royalties from producing properties throughout western Canada.

TORC acquisition (\$31.78 per boe for 1P and \$22.97 for 2P) – low decline high netback light-oil reserves in southeast Saskatchewan with a large inventory of 3D seismic and undeveloped land.

Whitecap Resources acquisition (\$30.78 per boe for 1P and \$24.49 for 2P) – long reserve life, low decline high netback light-oil reserves located in west central Saskatchewan.

**Low Outliers**

Quattro Exploration acquisition (\$4.38 per boe for 1P and \$2.37 for 2P) - acquired for optimization, work-over and developmental drilling opportunities

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**APPENDIX D**

**Narraway/Ojay Properties Teaser**



## Narraway / Ojay Natural Gas Resource Opportunity

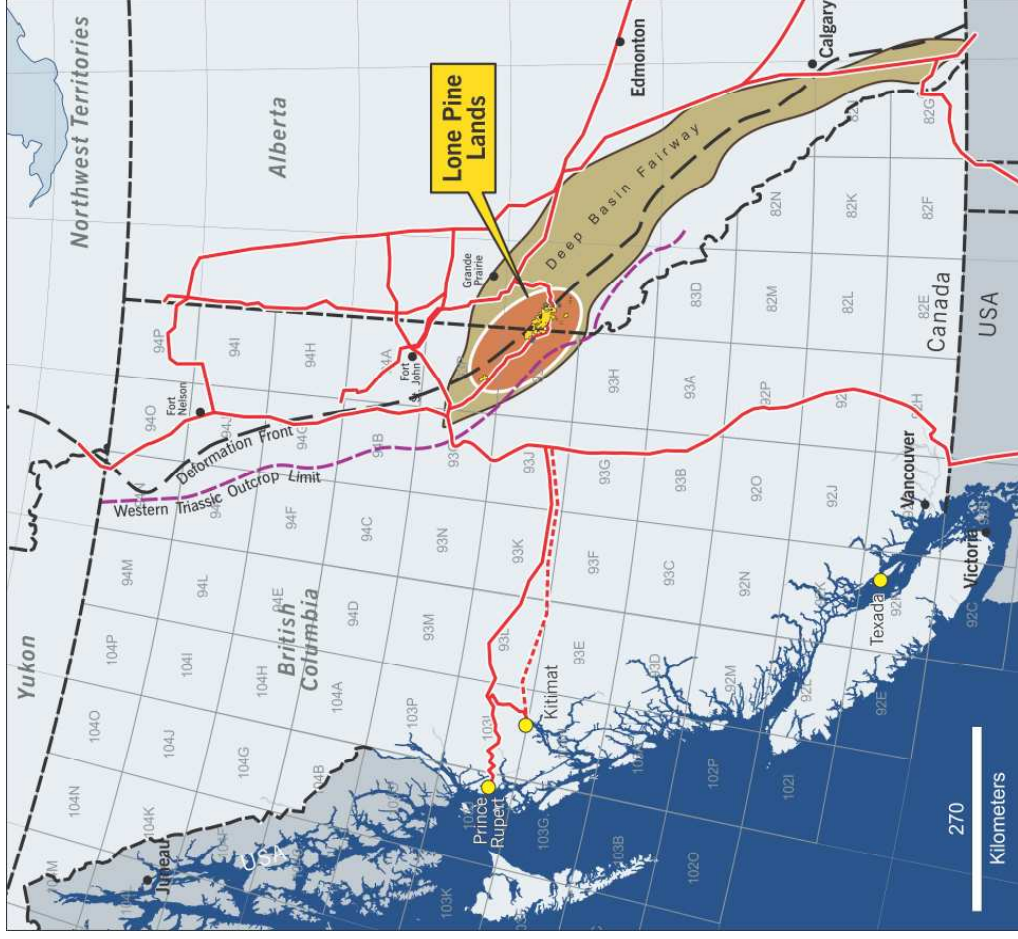
October 2012



RBC Capital Markets®

# Narraway/Ojay Natural Gas Resource Opportunity

Lone Pine Resources Inc. (“Lone Pine” or the “Company”) has retained RBC Capital Markets (“RBC”) as its exclusive agent to coordinate a disposition, joint venture, or other arrangement for interest in the Company’s position in the Narraway/Ojay natural gas assets located in the Deep Basin resource play of Northeast British Columbia and Northwest Alberta



## Opportunity Highlights

- Meaningful Resource Base in Proven Play:** Approximately 118,000 net acres (68% WI) with 323 Bcf of Total Proved plus Probable reserves<sup>(1)</sup> plus additional recoverable resource potential of 3 Tcf<sup>(2)</sup> net sales gas within Company lands in the stacked Cretaceous/Jurassic Deep Basin play
- Established Production Base:** Working interest production of 34.3 MMcf/d of natural gas from 72 wells in August, 2012
- Significant Drilling Inventory:** Potential to drill in excess of 850 gross vertical locations<sup>(2)</sup> in the stacked Cretaceous/Jurassic Deep Basin area. Locations (both infill and step-out) are supported by 2-D and 3-D seismic over the majority of Company lands
- Company Controlled Pace of Development:** Company lands are 69% operated allowing for controlled pace of development and capital investment
- Infrastructure Options and Accessibility:** The Company’s property has established infrastructure and gathering systems with delivery options to major mid-stream operators (TCPL, Alliance, Spectra) and potential to feed West Coast LNG projects

## Company Overview

- Lone Pine is a ~\$556<sup>(3)</sup> million enterprise value, independent exploration, production and development company with a 10 year track record of successful growth in Canada; the Company trades on both the Toronto (TSX) and New York (NYSE) stock exchanges
- Lone Pine has been a leading operator in the Narraway / Ojay Deep Basin area since entering the play in 1999

1 Total Proved plus Probable reserves as per DeGolyer and MacNaughton December 31<sup>st</sup>, 2011 NI 51-101 Reserves Report  
 (2) Based on geological mapping, RBC estimates of hydrocarbon resource potential at four wells per section and 90% development efficiency  
 (3) As at October 23, 2012



# Narraway/Ojay Deep Basin Position Proven Stacked Cretaceous/Jurassic Play, Basin Centered Sweet Gas Deposit

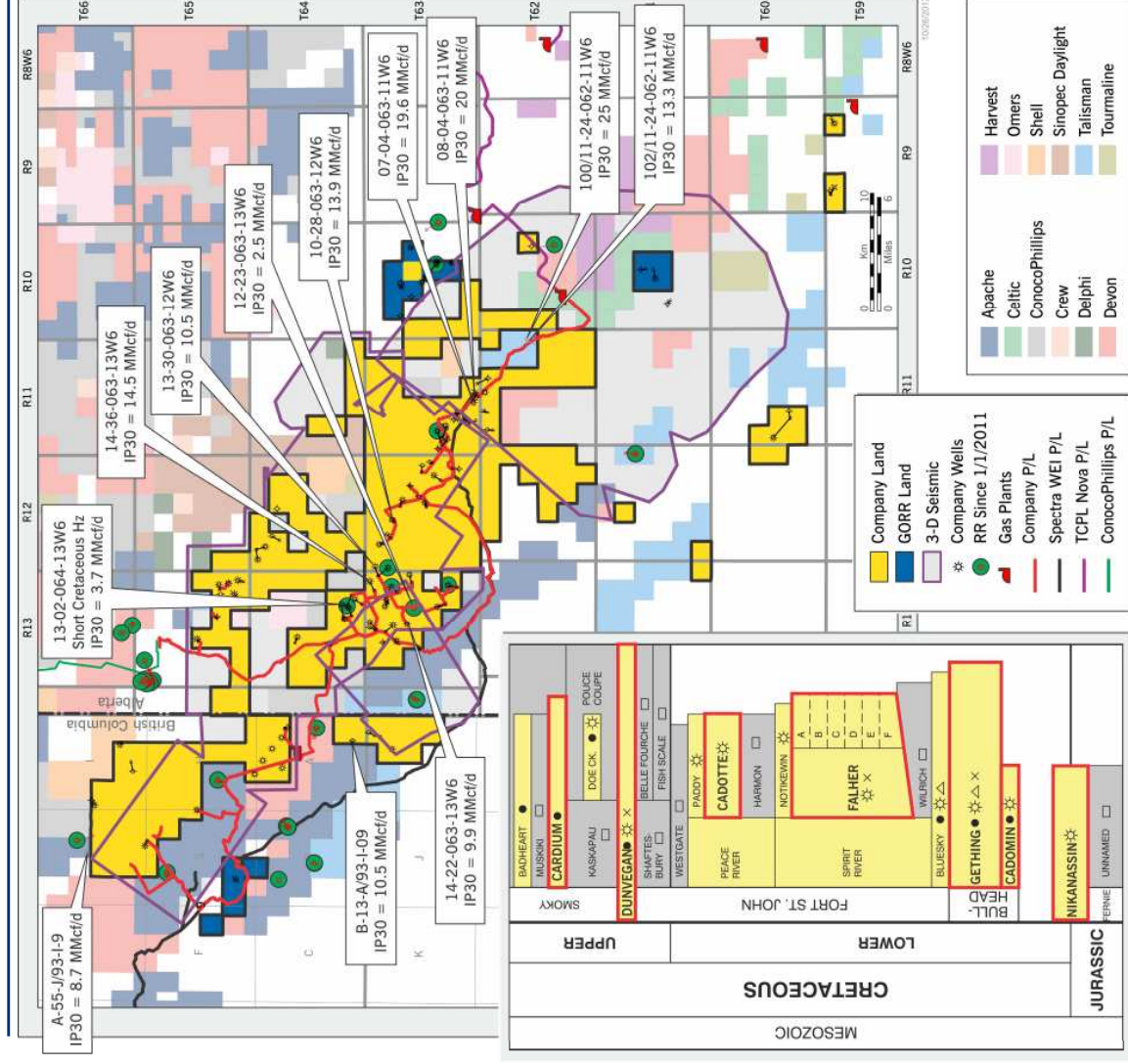
## Consolidated Land Position

- Approximately 115,500 contiguous net acres (72% WI) in Narraway/Ojay of which 90,000 acres are undeveloped
- Additional 10,100 acres of royalty interest lands (2% - 10% GORR)
- Majority of lands are controlled and operated by Lone Pine (69% operated)
- Strong land tenure exists with minimal capital spend required to continue lands
  - One well in 2013, four wells in 2014 and one well in 2015 required to continue all lands in Narraway/Ojay to 2019
- Additional 2,500 net undeveloped acres (20% WI) in Bullmoose area northwest of Narraway/Ojay with primary term expiry in October, 2017

## Low Risk Tight Gas Resource Play with Proven Track Record

- Play has progressed over time from a structural Triassic play to a Deep Basin stacked Cretaceous/Jurassic sweet gas resource play
  - 14 stacked mappable Cretaceous and Jurassic marine and fluvial sand targets across seven formations
  - Basin centered gas play with 100% drilling success
- Extensive 2-D and 3-D seismic coverage which is critical for well planning and execution
  - ~1,500 km of 2-D seismic data
  - ~720 km<sup>2</sup> of 3-D seismic data

## Area Development Activity



Source: Lone Pine, Accumap, RBC Rundle

# Narroway/Ojay Resource Potential and Infrastructure Setting Strategically Situated, Large Resource Base

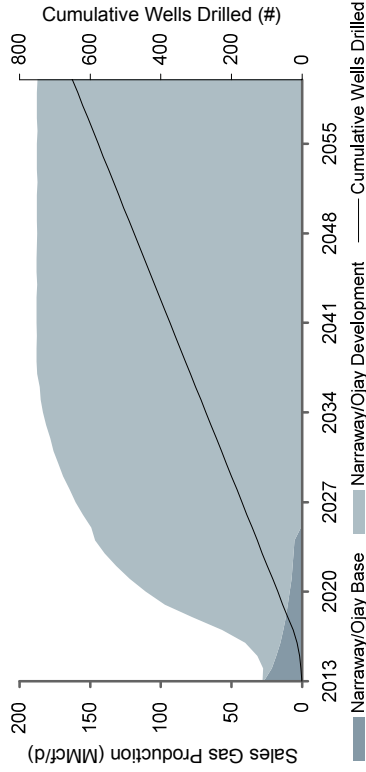
## Infrastructure Considerations

- Existing gathering systems allow for short rig release to tie-in cycle times (65 days for 100/15-26-063-13W6)
- Uniquely situated with multiple delivery options to access TCPL, Alliance and Spectra systems
- Access to Alberta and British Columbia markets provides marketing options and opportunity to supply West Coast LNG projects
- Company controls NEB regulated cross border pipeline

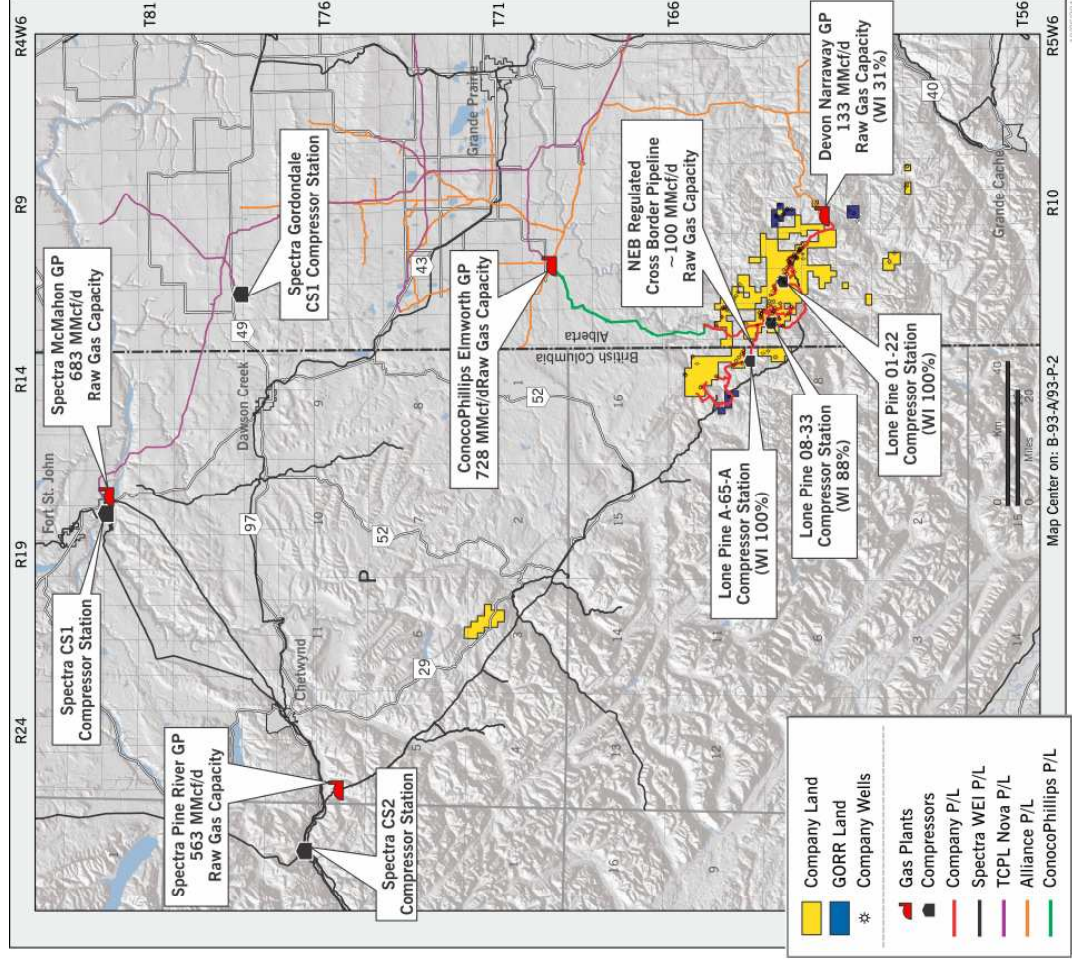
## Significant Development and Resource Potential

- Large resource base allows for long term development programs (2P Reserves of 323 Bcf<sup>(1)</sup> and additional recoverable resource potential of ~3 Tcf<sup>(2)</sup>)
- Resource potential well defined with over 850 gross potential development locations<sup>(2)</sup> at four wells per section
- Additional upside potential through zone specific horizontal development and extensive recompletion opportunities

## Illustrative Narroway / Ojay Development Profile<sup>(3)</sup>



## Regional Infrastructure



(1) Total Proved plus Probable reserves as per DeGolyer and MacNaughton December 31st, 2011 NI 51-101 Reserves Report

(2) Based on geological mapping, RBC estimates of hydrocarbon resource potential at four wells per section and 90% development efficiency

(3) Illustrative development profile may not reflect Company's internal development plans



# Next Steps and Key Contacts

## Process Overview

- **Confidentiality Agreement:** Please contact the RBC contacts listed to receive a Confidentiality Agreement
- **Confidential Information:** Will be made available to participants via a virtual data room upon signing a Confidentiality Agreement
- **Submission of Proposals:** Proposals must be submitted by Wednesday, December 12<sup>th</sup>, 2012 at 12:00 noon, MST. Detailed instructions for submitting a Proposal will be distributed in advance of the deadline to those that execute a Confidentiality Agreement
- **Inquiries:** All inquiries and requests shall be submitted or directed to the RBC individuals listed as contacts. Lone Pine, its subsidiaries and affiliates should not be contacted directly
- **Management Presentations:** Lone Pine representatives will provide technical presentations in Calgary to interested parties who have executed a Confidentiality Agreement



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# Cautionary Statements

None of Lone Pine Resources Inc. ("Lone Pine" or the "Company"), RBC Capital Markets or any of their respective subsidiaries or affiliates or any of their respective officers, directors, shareholders, employees, consultants, advisors, agents or representatives (collectively, "Representatives") make any representation or warranty, express or implied, in connection with any of the information made available pursuant to the transaction process described in this Memorandum, including, but not limited to the assets described herein (the "Assets"), or the past, present or future value of the anticipated production, reserve or resource potential, cash flows, income, costs, expenses, liabilities and profits, if any, to be derived from the Assets. Accordingly, any interested party receiving such information will rely solely upon its own independent examination and assessment of any such information in making a decision on whether and how to submit a proposal in respect of any or all of the Assets. Only such representations or warranties that are contained in a definitive agreement with respect to a transaction, if, as and when executed by the parties thereto, and subject to such conditions or limitations or restrictions as may therein be specified, shall have any legal effect. None of Lone Pine, RBC Capital Markets or any of their subsidiaries, affiliates or Representatives shall have any liability to any party receiving information pursuant to the transaction process described herein, nor to any affiliate, partner, member, officer, director, shareholder, employee, consultant, advisor, agent or representative of such party from the use of any such information in assessing whether and how to submit a bid in respect of any or all of the Assets.

This Memorandum is for informational purposes only and is not intended to be an offer that is capable of acceptance or create any binding obligation on Lone Pine or RBC Capital Markets, contractual or otherwise, to enter into any transaction with anyone receiving this Memorandum. Lone Pine and RBC Capital Markets also reserve their right at any time to and without prior notice and without assigning any reason therefore, (i) to terminate the further participation by a recipient or any other person or entity in the transaction process, (ii) to modify any of the rules or procedures relating to such process, (iii) to terminate entirely such process and (iv) to amend or supplement the information provided herein. No representations or warranty (whether express or implied) has been made by Lone Pine, RBC Capital Markets or any of their subsidiaries, affiliates or Representatives with respect to the transaction process or the manner in which the transaction process is conducted and any party receiving this Memorandum disclaims any such representation or warranty. Lone Pine, RBC Capital Markets and any of their subsidiaries, affiliates or Representatives are under no obligation to negotiate with or accept any offer or proposal by any person or entity regarding a transaction.

For convenience, references in this document to "Lone Pine", the "Company", "we", "us" and "our" may, where applicable, refer to and include any relevant direct and indirect subsidiary corporations of Lone Pine Resources Inc., and the assets, activities and initiatives of such subsidiaries.

## Advisory on Forward-Looking Information

This Memorandum contains forward-looking statements and information within the meaning of applicable United States and Canadian securities legislation, including Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934 ("forward-looking statements") with respect to Lone Pine and the Assets. This information is being provided solely in connection with a potential transaction involving any or all of the Assets, and not for any other purpose, including the purchase of any securities of Lone Pine. Any forward-looking statements or information regarding the Assets are provided subject to the disclaimers and obligations of confidentiality outlined above. The forward-looking statements in this Memorandum is based on management's current beliefs, expectations and assumptions, based on currently available information as to the outcome and timing of future events. Lone Pine cautions that its future oil, natural gas and natural gas liquids production, revenues, cash flows, liquidity, plans for future operations, expenses, outlook for oil and natural gas prices, timing and amount of future capital expenditures, and other forward-looking statements are subject to all of the risks and uncertainties normally incident to the exploration for and development and production and sale of oil and gas.

# Cautionary Statements

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## Reserves

The estimates of our reserves disclosed in this Memorandum have been prepared in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities (NI 51-101) of the Canadian Securities Administrators and are based on a report from DeGolyer and MacNaughton, an independent petroleum engineering firm, evaluating our reserves as of December 31, 2011. The standards of NI 51-101 differ from the standards of the SEC, and therefore, the reserves disclosure contained in this Memorandum will differ from the information contained in the most of the periodic reports Lone Pine files with the SEC and on SEDAR. Additional information regarding Lone Pine's reserves estimates and other oil and gas information prepared in accordance with NI 51-101 is contained in Lone Pine's Statement of Reserves Data and Other Oil and Gas Information (Form 51-101F1) filed on SEDAR on March 22, 2012. Other oil and gas information for Lone Pine, including acreage position and estimates of drilling locations, were prepared by Lone Pine's internal staff of engineers in accordance with the requirements of NI 51-101.

In this Memorandum, Lone Pine also uses internal estimates of quantities of oil and gas using certain terms, such as "resource potential," "original oil in place," "EUR" or other descriptions of volumes of resources potentially recoverable through additional exploratory drilling or recovery techniques, which terms include quantities of oil and gas that may not meet either the SEC's or NI 51-101 definitions of definitions of proved, probable and possible reserves, and which applicable SEC guidelines and NI 51-101 strictly prohibit Lone Pine from including in periodic filings. These estimates are by their nature more speculative than proved reserves determined under applicable SEC guidelines or NI 51-101, have not been risked by Lone Pine, and accordingly are subject to substantially greater risk of being recovered by Lone Pine. Lone Pine also describes internal estimates of identified drilling locations, which are not, and should not be taken to represent, proved undeveloped drilling locations.

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**APPENDIX E**

**Summary of 2013 Gas Transactions**

**Appendix X**  
**2013 Gas Transactions**

Acquiror	Target	Date Announced	Value (\$millions)	Oil % (Proved + Prob)	Proved Reserves \$/BOE	P+P Reserves \$/BOE	Reserve Value per Production \$/BOE/d
Centrica plc/Qatar Petroleum Int.	Suncor Energy Inc Assets	15-Apr-13	1,000.00	10%	n/a	6.13	23,810
Ember	Apache	15-Aug-13	220.00	0%	n/a	n/a	19,292
Undisclosed Buyers	Pengrowth assets	Pending	203.00	28%	n/a	7.00	34,407
Unspecified	Apache	17-Sep-13	117.00	0%	n/a	n/a	16,518
Questfire Energy Corp.	Advantage Oil & Gas Ltd. Assets	6-Feb-13	86.10	18%	4.29	2.94	15,101
Questfire Energy Corp.	Advantage Oil & Gas Ltd. Assets	6-Feb-13	74.89	18%	3.73	2.55	13,135
Pine Cliff Energy Ltd	Pengrowth Energy Corporation assets	27-May-13	34.00	0%	6.75	4.43	21,250
Spry2	Northern Patriot Assets	10-Jul-13	24.50	20%	4.88	3.01	28,994
Artekt (joint acquisition with Kelt)	BC assets	9-Aug-13	15.50	21%	12.60	12.60	25,833
Kelt (joint acquisition with Artekt)	BC assets	9-Aug-13	15.50	21%	12.60	12.60	25,833
Undisclosed Buyer	Lone Pine Resources Inc. assets	19-Feb-13	13.83	26%	n/a	11.70	42,685
Long Run Exploration Ltd.	Alberta assets	7-May-13	13.50	41%	9.78	6.43	22,500
Pine Cliff Energy Ltd	Spur Assets	30-Aug-13	13.25	0%	6.88	5.62	15,588
Strategic Oil & Gas Ltd.	Paramount Resources Ltd. Assets	4-Mar-13	9.00	40%	n/a	8.18	18,000
Undisclosed Buyer	Harvest Operations Corp. assets	1-Jan-13	8.82	15%	4.04	2.92	11,760
Long Term Asset Management Inc.	Argosy Energy Inc assets	6-Jun-13	6.40	26%	7.48	3.46	15,947
<b>Average</b>			<b>115.96</b>	<b>0.18</b>	<b>7.30</b>	<b>6.40</b>	<b>21,916</b>
High			1,000.00	41%	12.60	12.60	42,685
Low			6.40	0%	3.73	2.55	11,760

**High Outliers**

Artekt + Kelt acquisition (\$12.60 per boe for IP and \$12.60 for 2P) - assets located in the Fireweed area of BC, which is adjacent to Artekt's/Kelt's core Inga property.

Included in the acquisition was an operated compression and dehydration facility and 25km of pipeline that significantly expands Artekt's/Kelt's infrastructure in the area.

Undisclosed acquisition of Lone Pine Resources assets (\$11.70 per boe for 2P) - non-core asset sale by LPR, proceeds used to reduce debt outstanding.

Strategic Oil & Gas acquisition (\$8.18 per boe for 2P) - assets are located adjacent to Strategic's Steen River core area and will provide Strategic with control of infrastructure.

**Low Outliers**

Questfire acquisition (\$8.18 per boe for 2P) - conventional, relatively low decline properties which were all of Advantage's non-core properties.

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**APPENDIX F**

**Analysis of Lone Pine Resources book values  
and accounting methods**

## 1. PROPERTY AND EQUIPMENT BOOK VALUE SUMMARY

- 1.1 The net property and equipment per the Companies' financial statements is summarized below.

<i>Annual and Quarterly Financial Statements</i>	<i>Note</i>	<b>Sep 30, 2013</b>	<b>Dec 31, 2012</b>
<i>In USD \$000's</i>			
Proved	<b>1</b>	344,579	376,203
Unproved	<b>2</b>	146,872	148,956
Net oil and gas properties		491,451	525,159
Other property and equipment	<b>3</b>	62,523	65,096
Net property and equipment		553,974	590,255

**Note 1:** Proved reserves booked value is allocated according to SEC reserve reporting requirements

**Note 2:** Unproved reserves book value is based on costs incurred relating to unproved reserve assets.

**Note 3:** Other property and equipment consists of mid-stream assets – ie: pipelines and other gas gathering equipment. This equipment is recorded at cost and amortized over the life of the asset.

## **2. ACCOUNTING METHODOLOGY**

- 2.1 The Company uses the full cost method of accounting for oil and natural gas activities. The Company capitalizes all costs incurred in the acquisition, exploration and development of properties, and the fair value of restoration, dismantlement and abandonment activities.
- 2.2 Under the full cost method, the Company performs a ceiling test calculation each quarter using prices that are based on the average of the first day of the month prices during the 12 month period prior to the reporting. The full cost ceiling test is a limitation on capitalized costs prescribed by SEC Regulation S-X Rule 4-10. If the net capitalized costs for a cost center exceed the sum of the SEC-prescribed calculated components, a ceiling test write-down is recognize to the extent of the excess capitalized costs.

### **SEC Reporting of Oil and Gas Assets**

- 2.3 SEC reserve reporting is in accordance with the reserves and definitions of Rules 4-10(a) (1)-(32) of Regulation S-X of the SEC. The main reserve evaluation assumptions are:
  - 2.3.1 Requires the allocation of value to proved oil and gas reserves only (disclosure of probable reserves optional);
  - 2.3.2 Proved oil and gas reserves as quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations; and
  - 2.3.3 The reserve evaluation uses flat pricing for the duration of the life of the reserves – flat prices for oil, natural gas and NGLs are based on the historical 12-month average.
- 2.4 Proved Reserves are further defined into separate categories:
  - 2.4.1 Proved Developed
    - 2.4.1.1 Producing (PDP)
    - 2.4.1.2 Non-producing (PNP)
  - 2.4.2 Proved Undeveloped (PUD)
- 2.5 Proved Developed Reserves consist of those reserves that are producing or non-producing and can be expected to be recovered:



- 2.5.1 Through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and
- 2.5.2 Through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.
- 2.6 Proved Undeveloped Reserves are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
- 2.7 Under the SEC regulations, Companies can capitalize certain costs incurred in relation to unproved reserves. These costs consist of acquisition, exploration, development and capitalized interest costs.

### **NI 51-101 Reporting of Oil and Gas Assets**

- 2.8 Canadian reserve reporting is in accordance with the reserves and definitions of Canadian National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities, and as presented in the Canadian Oil and Gas Evaluation Handbook. The main reserve evaluation assumptions are:
  - 2.8.1 Allocates value to proved and probable oil and gas reserves;
  - 2.8.2 Proved reserves as quantities of oil and gas that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves;
  - 2.8.3 Probable reserves as those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities will be greater or less than the sum of the estimated proved + probable reserves.
  - 2.8.4 To determine the net present value of the reserves, the evaluation uses an escalating price curve.
- 2.9 Developed reserves are divided into further categories:
  - 2.9.1 Developed producing (PDP) reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may currently be producing or if shut in, they must have previously been on production.

2.9.2 Developed non-producing (PNP) reserves are those reserves that either have not been on production, or have been on production but are shut in and the date of resumption of production is unknown.

2.9.3 Undeveloped reserves (PUD) are those reserves expected to be recovered from known accumulations where a significant expenditure is required to render them capable of production.

### Comparison of SEC and NI 51-101 Reserve Reporting

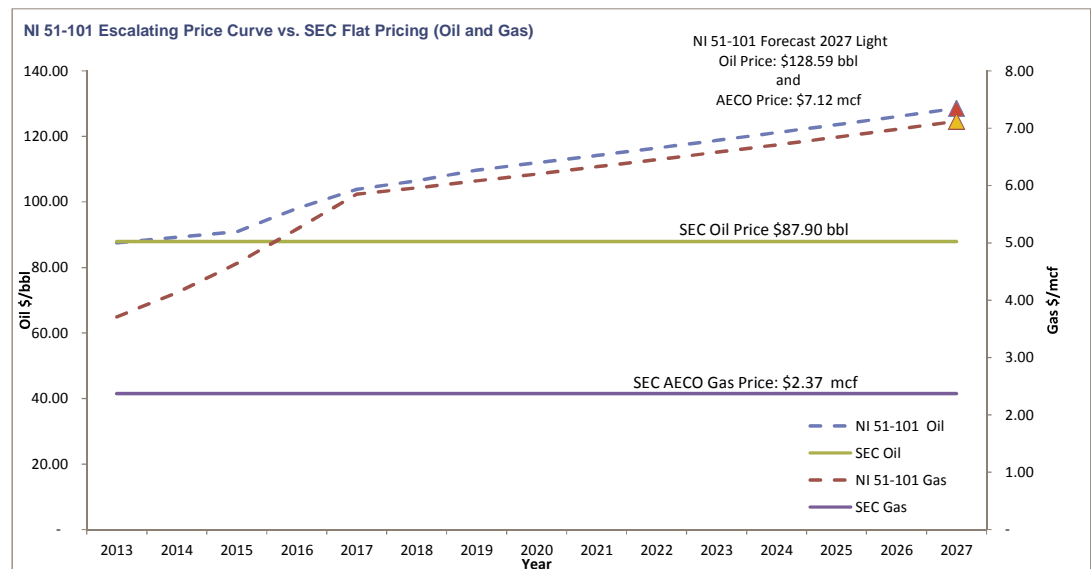
2.10 The table below presents the key differences between the SEC and NI 51 - 101 reserve evaluations.

Assumption	SEC Reserve Reporting	NI 51-101 Reserve Reporting
<b>Reserves allocated value</b>	Only Proved Reserves must be disclosed (Option to disclose Probable Reserves)	Proved and Probable Reserves must be disclosed
<b>Commodity Prices</b>	Flat prices based on 12-month historical average	Escalating price curve

2.11 The NI 51 - 101 reserve evaluation renders a higher net present value (NPV) of reserves due to:

2.11.1 The escalating pricing assumption (see the difference in reserve life pricing in the chart below); and

2.11.2 The inclusion of probable reserves.



2.12 Due to the NI 51-101's escalating price curve the farther out into the reserve life, the more significant the pricing differential. This is further outlined in the following table which illustrates the oil and gas prices used under NI 51 – 101 and the SEC case.

Year	Oil			Natural Gas		
	NI 51 - 101 (\$/bbl)	SEC (\$/bbl)	Difference (\$/bbl)	NI 51 - 101 (\$/mcf)	SEC (\$/mcf)	Difference (\$/mcf)
2013	87.48	87.90	(0.42)	3.71	2.37	1.34
2014	89.19	87.90	1.29	4.13	2.37	1.76
2015	90.93	87.90	3.03	4.64	2.37	2.27
2016	98.03	87.90	10.13	5.24	2.37	2.87
2017	103.83	87.90	15.93	5.85	2.37	3.48
2018	106.46	87.90	18.56	5.96	2.37	3.59
2019	109.74	87.90	21.84	6.08	2.37	3.71
2020	111.94	87.90	24.04	6.20	2.37	3.83
2021	114.18	87.90	26.28	6.33	2.37	3.96
2022	116.46	87.90	28.56	6.45	2.37	4.08
2023	118.79	87.90	30.89	6.58	2.37	4.21
2024	121.17	87.90	33.27	6.71	2.37	4.34
2025	123.59	87.90	35.69	6.84	2.37	4.47
2026	126.07	87.90	38.17	6.98	2.37	4.61
2027	128.59	87.90	40.69	7.12	2.37	4.75

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**APPENDIX G**

**Blow-down Scenario Calculation**

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Blow-down Scenario Calculation

NPV of Cash Flows @ 10% in CAD \$000's								
Year	NI 51-101 CF	SEC CF	G&A	Net of G&A		Interest	Net of G&A + Interest	
				NI 51-101 CF	SEC CF		NI 51-101 CF	SEC CF
2013	19,544	15,700	3,136	16,408	12,564	6,248	10,160	6,316
2014	58,400	42,300	11,405	46,995	30,895	22,720	24,276	8,176
2015	47,000	31,500	10,368	36,632	21,132	20,654	15,978	478
2016	41,100	24,400	9,425	31,675	14,975	18,776	12,898	(3,802)
2017	35,400	18,800	8,569	26,831	10,231	17,070	9,762	(6,838)
2018	28,800	15,300	7,790	21,010	7,510	15,518	5,493	(8,007)
2019	23,700	12,100	7,081	16,619	5,019	14,107	2,512	(9,088)
2020	19,300	9,900	6,438	12,862	3,462	12,825	38	(9,362)
2021	16,100	7,900	5,852	10,248	2,048	11,659	(1,411)	(9,611)
2022	13,300	6,400	5,320	7,980	1,080	10,599	(2,619)	(9,519)
2023	11,100	5,300	4,837	6,263	463	9,635	(3,372)	(9,172)
2024	9,100	4,300	4,397	4,703	(97)	8,759	(4,056)	(8,856)
2025	7,600	3,500	3,997	3,603	(497)	7,963	(4,360)	(8,460)
2026	6,100	2,800	3,634	2,466	(834)	7,239	(4,773)	(8,073)
2027	5,100	2,200	3,304	1,796	(1,104)	6,581	(4,785)	(7,685)
Remaining	21,600	8,900	2,176	19,424	6,724	5,983	13,441	741
<b>Total</b>	<b>363,244</b>	<b>211,300</b>	<b>97,729</b>	<b>265,515</b>	<b>113,571</b>	<b>196,335</b>	<b>69,180</b>	<b>(82,764)</b>