

**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1      Name and Address of Company**

Arsenal Energy Inc.  
1900, 639 – 5<sup>th</sup> Avenue S.W.  
Calgary, AB Canada T2P 0M9

**Item 2      Date of Material Change**

This material change occurred on June 23, 2016.

**Item 3      News Release**

Arsenal Energy Inc. (“**Arsenal**” or the “**Company**”) and Lone Pine Resources Canada Ltd. (“**Lone Pine**”) issued a joint press release disclosing the details discussed in this material change report on June 23, 2016 and disseminated the press release through the facilities of a recognized news wire service.

**Item 4      Summary of Material Change**

Arsenal and Lone Pine announced that they have entered into an arrangement agreement (the “**Arrangement Agreement**”) to effect a business combination by way of a plan of arrangement (the “**Arrangement**”) under the *Business Corporations Act* (Alberta).

**Item 5      Full Description of Material Change**

**Item 5.1      Full Description of Material Change**

***The Arrangement***

Arsenal and Lone Pine, a privately-held oil and gas exploration and production company based in Calgary, Alberta have entered into the Arrangement Agreement providing for the business combination of Arsenal and Lone Pine that will result in the shareholders of Lone Pine and Arsenal receiving common shares of a new corporation (“**New Lone Pine**”) in substitution for their existing shares, with New Lone Pine in turn indirectly holding the combined undertakings of Lone Pine and Arsenal. Upon completion of the Arrangement, which is expected to occur in September 2016, former Lone Pine securityholders will hold 77% of the New Lone Pine shares and former Arsenal securityholders will hold 23% of the New Lone Pine shares. The precise ratio per share at which New Lone Pine shares are issued in substitution for Lone Pine shares and Arsenal shares will be based on these proportionate interests of 77% and 23%, respectively, and will be confirmed in the joint information circular expected to be issued by Lone Pine and Arsenal in August 2016.

New Lone Pine will retain key personnel from both entities and will be led by Tim Granger as President and Chief Executive Officer. The executive team will also include Mimi Lai as Vice President, Finance and Chief Financial Officer, Robert Guy as Vice President, Operations, and Tony van Winkoop, as Vice President, Exploration. New Lone Pine’s board of directors will have proportional representation from the two companies and will be led by Lone Pine’s current chairman, Patrick McDonald, with the balance of the board to be detailed in the joint information circular.

National Bank Financial Inc. is acting as financial advisor to Arsenal and has provided the board of directors of Arsenal with its verbal opinion, that subject to the review of the final form of the documentation effecting the Arrangement, the consideration to be received by Arsenal shareholders under the Arrangement is fair, from a financial point of view, to the Arsenal shareholders.

The board of directors of Arsenal has, based upon, among other things, the verbal fairness opinion from National Bank Financial Inc., unanimously approved the Arrangement and the entering into of the Arrangement Agreement, determined that the Arrangement is in the best interests of Arsenal and fair to the Arsenal shareholders, and recommends that Arsenal shareholders vote in favor of the Arrangement.

The Lone Pine board of directors has similarly concluded that the Arrangement is in the best interests of Lone Pine and fair to the Lone Pine shareholders.

Implementation of the Arrangement will be subject to the approval of Arsenal shareholders and Lone Pine shareholders, respectively, at special meetings of both companies to be held in September 2016, by majorities of not less than two-thirds of the votes cast by Arsenal shareholders at the Arsenal meeting, and not less than two-thirds of the votes cast at the Lone Pine meeting by the common shareholders and the preferred shareholders of Lone Pine, in each case voting as a class.

All of the directors and officers of both Arsenal and Lone Pine have entered into support agreements pursuant to which they have agreed, among other things, to vote in favour of the Arrangement. In addition, shareholders of Lone Pine related to Goldman Sachs Asset Management, holding approximately 54% of the outstanding Lone Pine common shares and approximately 69% of the outstanding Lone Pine preferred shares, have agreed to vote in favour of the Arrangement. Such shareholders will hold approximately 48% of the New Lone Pine shares on completion of the Arrangement.

Completion of the Arrangement is subject to various other conditions, including approval by the Court of Queen's Bench of Alberta, receipt of any necessary regulatory approvals, approval by the TSX of the listing of the New Lone Pine common shares, and the consent of Arsenal's senior lenders, as more particularly set out in the Arrangement Agreement.

As further described below, the Arrangement Agreement provides for non-solicitation covenants on the part of Arsenal with respect to alternative transactions, subject to its ability to consider, pursuant to the fiduciary obligations of the Arsenal board of directors, a proposal for an alternative transaction that meets specified criteria and the right of Lone Pine to match any such proposal, and for the payment of certain fees if the Arrangement Agreement is terminated, including a fee of \$2.75 million by Arsenal to Lone Pine if Arsenal terminates the Arrangement Agreement to pursue an alternative transaction.

A joint information circular containing detailed information regarding the Arrangement, the Arrangement Agreement and New Lone Pine is expected to be mailed to the Arsenal and Lone Pine shareholders in early August 2016. Subject to requisite shareholder approvals and to satisfaction or waiver of all other conditions specified in the Arrangement Agreement, the Arrangement is expected to be completed by early September 2016.

Lone Pine has received a 'highly confident' letter from Alberta Treasury Branches on behalf of a syndicate of lenders in respect of a new proposed credit agreement expected to be entered into concurrently with closing of the Arrangement (and subject to the closing of the Arrangement). The highly confident letter contemplates that the credit agreement will provide Lone Pine with senior secured revolving credit facilities up to \$60 million, consisting of a syndicated credit facility up to \$50 million and a \$10 million operating credit facility. The borrowing base will be \$55 million. The credit facilities are expected to be available on a fully revolving basis until May 31, 2017. The borrowing base under the credit facilities will be subject to a semi-annual borrowing base review. The new credit facilities are expected to be available following closing of the Arrangement to finance New Lone Pine's ongoing capital expenditures and for general corporate purposes. Concurrently with closing of the Arrangement, it is anticipated that Arsenal's existing credit facilities will be repaid in full and terminated.

The Arrangement Agreement has been filed by Arsenal on SEDAR and can be reviewed under Arsenal SEDAR profile at [www.sedar.com](http://www.sedar.com).

### ***Certain Terms of the Arrangement***

The following is a summary of certain terms of the Arrangement Agreement, which summary is qualified by and is subject to the full terms and conditions of the Arrangement Agreement, a copy of which has been filed on Arsenal's SEDAR profile at [www.sedar.com](http://www.sedar.com). Capitalized terms not otherwise defined herein have the meaning assigned to them in the Arrangement Agreement.

### ***Arsenal's Covenants Regarding Non-Solicitation***

Pursuant to Section 3.4 of the Arrangement Agreement:

- (a) Arsenal has agreed to immediately cease and cause to be terminated all existing discussions and negotiations, if any, including, without limitation, through any of its Representatives, with any person (other than Lone Pine and its Representatives) with respect to any Acquisition Proposal. Arsenal has agreed to discontinue access to any of its confidential information and not allow or establish access to any of its confidential information, or any data room (virtual or otherwise) containing the same, and has agreed to immediately request the return or destruction of all confidential information provided to any third parties who have entered into a confidentiality agreement with Arsenal relating to an Acquisition Proposal. Arsenal has agreed to not terminate, amend, release or waive, or forbear in the enforcement of, any provision of any confidentiality agreements with persons other than Lone Pine, including any "standstill" provisions thereunder, or enter into or participate in any discussions, negotiations or agreements to terminate, amend, release or waive, or forbear in respect of, any rights or other benefits under any confidentiality agreements. Arsenal has agreed to specifically enforce all standstill, non-disclosure, non-solicitation and similar covenants of which it is a beneficiary.
- (b) Except as expressly provided in Article 7 of the Arrangement Agreement, Arsenal has agreed that it will not, directly or indirectly, do or authorize or permit any of its Representatives to do any of the following:
  - (i) solicit, facilitate, initiate or encourage any Acquisition Proposal (including by furnishing any non-public information concerning Arsenal, or permitting any visit to any facilities or properties of Arsenal);
  - (ii) enter into or participate in any discussions or negotiations regarding an Acquisition Proposal, or furnish or provide access to any non-public information with respect to Arsenal's business, properties, operations or condition (financial or otherwise) in connection with an Acquisition Proposal, or otherwise cooperate in any way with, or assist, facilitate or encourage, any effort or attempt of any other person to do or seek to do any of the foregoing;
  - (iii) release, waive, or otherwise forbear in the enforcement of, or enter into or participate in any discussions, negotiations or agreements to release, waive or otherwise forbear in respect of, any rights or other benefits under any confidentiality agreements, including any "standstill" provisions thereunder;
  - (iv) withdraw or change, or propose to withdraw or change, in any manner adverse to Lone Pine, the approval of the Arsenal Board of the Arrangement or the recommendation of the Arsenal Board that the Arsenal Shareholders vote in favour of the Arrangement; or
  - (v) accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal, or publicly announce an intention to accept, recommend, approve or enter into an agreement to implement an Acquisition Proposal;

provided, however, that notwithstanding anything in subsection 3.4(b) of the Arrangement Agreement, Arsenal and its Representatives may:

- (A) enter into or participate in discussions or negotiations with a third party who (without any solicitation, initiation or encouragement, directly or indirectly, after the date of the Arrangement Agreement, or any other breach of section 3.4 of the Arrangement Agreement, by Arsenal or any of its Representatives in breach of Arrangement Agreement) seeks to initiate such discussions or negotiations and, subject to execution of a confidentiality agreement substantially similar to the Confidentiality Agreement (provided that such confidentiality agreement shall provide for the disclosure thereof, along with the information provided thereunder, to Lone Pine as provided below) may furnish to such third party information concerning Arsenal and its business, properties, operations or condition (financial or otherwise), in each case only if and to the extent that:
  - (I) the third party has first made a Superior Proposal; and
  - (II) at least one (1) Business Day prior to entering into or participating in any such discussions or negotiations or furnishing such information, Arsenal provides prompt notice thereof to Lone Pine and provides to Lone Pine the information required to be provided under subsection 3.4(c) of the Arrangement Agreement; and
- (B) accept, recommend, approve or enter into an agreement to implement a Superior Proposal from a third party, but only if prior to such acceptance, recommendation, approval or implementation, (i) the Arsenal Board shall have concluded in good faith, after considering all proposals to adjust the terms and conditions of the Arrangement Agreement as contemplated by subsection 3.4(d) of the Arrangement Agreement and after receiving the advice of counsel, that the failure to take such action would be inconsistent with the exercise by the Arsenal directors of their fiduciary duties under Applicable Laws, (ii) Arsenal complies with its obligations set forth in subsection 3.4(d) of the Arrangement Agreement, and (iii) Arsenal terminates the Arrangement Agreement in accordance with section 7.1(e) of the Arrangement Agreement and concurrently therewith pays to Lone Pine the full amount of the Arsenal Termination Fee required under section 6.1 of the Arrangement Agreement.
- (c) Arsenal has agreed that it will promptly and in any event by 10:00 a.m. (Calgary time) on the day following the date on which it receives or becomes aware of any Acquisition Proposal (or a material amendment thereto) notify Lone Pine thereof and include a copy of any written Acquisition Proposal (or amendment) or, if no written Acquisition Proposal has been received, a description of the material terms and conditions of the Acquisition Proposal (including the identity of the person or persons making the Acquisition Proposal and the indicative consideration involved), together with a copy of any information provided by Arsenal to the person or persons making the Acquisition Proposal (if not previously provided to Lone Pine) and such other information as Lone Pine may reasonably request.
- (d) In the event that Arsenal receives a Superior Proposal, Arsenal has agreed that it will give Lone Pine, orally and in writing, at least five complete Business Days' advance notice (such advance notice period to end not sooner than 5:00 pm (Calgary time) on the fifth clear Business Day after notice is given by Arsenal) of any decision by the Arsenal Board to accept, recommend, approve or enter into an agreement to implement a Superior Proposal, which notice shall confirm that the Arsenal Board has determined that such Acquisition Proposal constitutes a Superior Proposal, shall identify the person or persons making the Superior Proposal and shall provide a true and complete copy thereof (including any related financing documents) and any amendments thereto.

During such five Business Day period, Arsenal has agreed not to accept, recommend, approve or enter into any agreement to implement such Superior Proposal and not to release the party making the Superior Proposal from any “standstill” or similar obligations, and has agreed not to withdraw or change its recommendation in respect of the Arrangement. In addition, during such five Business Day period, Arsenal has agreed, and has agreed cause its financial and legal advisors to, negotiate in good faith with Lone Pine and its financial and legal advisors to make such adjustments in the terms and conditions of the Arrangement Agreement and the Plan of Arrangement as would enable Arsenal to proceed with the Arrangement (as amended) rather than the Superior Proposal. In the event Lone Pine proposes to amend the Arrangement Agreement and the Plan of Arrangement to provide the Arsenal Shareholders with consideration per Arsenal Share pursuant to the Arrangement Agreement and the Arrangement (as amended) that the Arsenal Board determines, after consultation with its independent financial advisor, to be equal to or greater than the value per Arsenal Share provided pursuant to the Superior Proposal and so advises the Arsenal Board in writing prior to the expiry of such five Business Day period, the Arsenal Board and Arsenal, as applicable, has agreed to not accept, recommend, approve or enter into any agreement to implement such Superior Proposal, and not release the party making the Superior Proposal from any “standstill” or similar obligations, and not withdraw or change its recommendation in respect of the Arrangement, and Arsenal has agreed to enter into an agreement giving effect to the amendment to the Arrangement Agreement. Notwithstanding the foregoing, and for certainty, Lone Pine shall have no obligation to make or negotiate any changes to the Arrangement Agreement in the event that Arsenal receives a Superior Proposal. Arsenal acknowledges that each successive material modification of any Superior Proposal shall constitute a new Superior Proposal for purposes of the requirement under subsection 3.4(d) of the Arrangement Agreement to provide five Business Days' notice to Lone Pine.

- (e) The Arsenal Board has agreed to reaffirm its recommendation of the Arrangement by news release promptly after (i) any Acquisition Proposal that is not a Superior Proposal is publicly made or announced, or (ii) the Arsenal Board determines that a proposed amendment to the terms of the Plan of Arrangement would result in an Acquisition Proposal no longer being a Superior Proposal.
- (f) Lone Pine has agreed that all information that may be provided to Lone Pine by Arsenal with respect to any Superior Proposal pursuant to section 3.4 of the Arrangement Agreement shall be treated as “Confidential Information” as that term is defined in the Confidentiality Agreement and shall not be disclosed or used except in accordance with the provisions of the Confidentiality Agreement or in order to enforce its rights under the Arrangement Agreement in any action, suit or proceeding.
- (g) Arsenal has agreed to ensure that its Representatives are aware of and abide by the provisions of section 3.4 of the Arrangement Agreement, and shall be responsible for any breach of section 3.4 of the Arrangement Agreement by a Representative. For certainty, any conduct by a Representative that is contrary to the restrictions set forth in section 3.4 of the Arrangement Agreement shall be deemed to constitute a breach thereof by Arsenal.
- (h) Nothing in the Arrangement Agreement shall: (i) limit in any way the obligation of Arsenal to convene and hold the Arsenal Meeting; or (ii) prevent the Arsenal Board from complying with section 2.17 of the Arrangement Agreement of National Instrument 62-104 — *Take-Over Bids and Issuer Bids* and similar provisions of Securities Laws relating to the provision of directors' circulars in respect of an Acquisition Proposal that is not a Superior Proposal.

Pursuant to the Arrangement Agreement, “**Acquisition Proposal**” is defined as any inquiry or the making of any proposal or offer by or from any person or group of persons acting jointly or in concert within the meaning of National Instrument 62-104 (other than Lone Pine or any person or persons with whom Lone Pine is acting jointly or in concert), whether or not subject to due diligence or any other conditions and whether or not in writing, to Arsenal or the Arsenal Shareholders or by public announcement, which constitutes, relates to or could reasonably be expected to lead to:

- (a) an acquisition, in any manner, directly or indirectly, of 10% or more of the consolidated assets of Arsenal;
- (b) an acquisition, in any manner (including by way of issuance of new securities by Arsenal), directly or indirectly, of beneficial ownership of or control or direction over securities of Arsenal that, when taken together with the securities of Arsenal owned or controlled or directed by the prospective acquirer and any person acting jointly or in concert with the prospective acquirer (assuming conversion, exercise or exchange of all securities that are convertible, exercisable or exchangeable for Arsenal Shares or other voting securities, if any), would constitute 20% or more of the voting securities of Arsenal;
- (c) any amalgamation, merger, consolidation, combination, partnership, joint venture, arrangement, reorganization, take-over bid, issuer bid, exchange offer, recapitalization, liquidation, dissolution, share exchange, spin-off or similar transaction involving Arsenal or any subsidiary of Arsenal;
- (d) any other transaction, the consummation of which would or could reasonably be expected to impede, interfere with, prevent or delay the transactions contemplated by the Arrangement Agreement or the Arrangement, or materially reduce the benefits to Lone Pine under the Arrangement Agreement or the Arrangement;

whether in one transaction or a series of transactions; provided, however, that the Excluded Dispositions shall not constitute an Acquisition Proposal; and provided, further, that for the purpose of the definition of “Superior Proposal” in subsection 1.1(nnnn) of the Arrangement Agreement, the reference in this definition of “Acquisition Proposal” to “a substantial part of the assets of Arsenal or any subsidiary of Arsenal” shall be deemed to be a reference to “all or substantially all of the consolidated assets of Arsenal”, and the reference in this definition of “Acquisition Proposal” to “20% of more of the voting securities of Arsenal” shall be deemed to be a reference to “all of the outstanding Arsenal Shares (and all other voting and participating securities of Arsenal, if any)”.

Pursuant to the Arrangement Agreement, “**Superior Proposal**” is defined as any unsolicited bona fide written Acquisition Proposal made after the date of the Arrangement Agreement to acquire all of the outstanding Arsenal Shares or all or substantially all of the consolidated assets of Arsenal:

- (a) that does not constitute or result from a breach of section 3.4 of the Arrangement Agreement or any agreement between Arsenal the person or persons making the Acquisition Proposal;
- (b) that is not subject to a financing condition, and in respect of which the funds (or other consideration) necessary to consummate the Acquisition Proposal have been demonstrated to the satisfaction of the Arsenal Board, acting reasonably and in good faith and after receipt of advice from an independent financial advisor of nationally recognized reputation and outside legal counsel (as reflected in the minutes of the Arsenal Board proceedings), to be fully committed and available to the prospective acquirer at the time and on the basis set out in the Acquisition Proposal;
- (c) that is not subject to a due diligence condition, or any term or condition that would allow greater access to the books, records or personnel of Arsenal or its subsidiaries than was made available to Lone Pine prior to the date of the Arrangement Agreement;
- (d) that, in the opinion of the Arsenal Board, acting reasonably and in good faith and after receipt of advice from an independent financial advisor of nationally recognized reputation and outside legal counsel (as reflected in the minutes of the Arsenal Board proceedings), confirmation of which shall be immediately delivered to Lone Pine, (1) is a commercially feasible transaction that Arsenal and the prospective acquirer can consummate immediately, subject only to receipt of applicable regulatory and shareholder approvals (which in such opinion of the Arsenal Board are likely to be obtained without undue delay), and in any event within a time frame that is reasonable in the circumstances, and (2) if consummated, would be superior, from a financial point of view,



for the Arsenal Shareholders to the transactions contemplated by the Arrangement Agreement (including any adjustment to the terms and conditions of the Arrangement proposed pursuant to section 3.4 of the Arrangement Agreement); and

- (e) in respect of which the Arsenal Board has determined, acting reasonably and in good faith and after advice from outside legal counsel (as reflected in the minutes of the Arsenal Board proceedings), that failure to recommend such Acquisition Proposal to the Arsenal Shareholders would be inconsistent with its fiduciary duties under Applicable Laws.

#### ***Termination Fees***

If at any time after the execution and delivery of the Arrangement Agreement and prior to the Effective Date or termination of the Arrangement Agreement (except in the case of section 6.1(b) of the Arrangement Agreement, as applicable):

- (a) the Arsenal Board withdraws or changes any of its recommendations or determinations referred to in the Arrangement Agreement in a manner adverse to Lone Pine, or resolves to do so before the Effective Date, or has failed to publicly reaffirm its recommendation of the Arrangement when required to do in accordance with section 3.4 of the Arrangement Agreement (unless Lone Pine is in breach of its obligations under the Arrangement Agreement or there occurs a Material Adverse Change in respect of Lone Pine and the withdrawal or change relates to such breach or Material Adverse Change);
- (b) a bona fide Acquisition Proposal (or intention to make one) is publicly announced, proposed, offered or made to Arsenal or to the Arsenal Shareholders prior to termination of the Arrangement Agreement, and after such Acquisition Proposal has been announced, proposed, offered or made the Arsenal Shareholders do not approve the Arrangement, the Arrangement is not submitted for their approval or the Arrangement is not otherwise completed in the manner contemplated in the Arrangement Agreement, and whether before or after termination of the Arrangement Agreement, such Acquisition Proposal, as originally proposed or subsequently amended, or any other Acquisition Proposal respecting Arsenal, is completed within 12 months of the date the first referenced Acquisition Proposal is announced, proposed, offered or made;
- (c) the Arsenal Board accepts, recommends or approves, or Arsenal enters into an agreement to implement, a Superior Proposal;
- (d) Arsenal breaches any of its covenants or other obligations under section 3.4 of the Arrangement Agreement;
- (e) Arsenal breaches any of its covenants or other obligations in the Arrangement Agreement (other than those under section 3.4 of the Arrangement Agreement), which breach, individually or in the aggregate, would or would reasonably be expected to result in a Material Adverse Change or have a Material Adverse Effect in respect of Arsenal, or materially impedes or would reasonably be expected to materially impede completion of the Arrangement, and Arsenal does not cure the breach within five (5) Business Days after receipt of written notice thereof from Lone Pine (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or
- (f) Arsenal breaches any of its representations or warranties made in the Arrangement Agreement, which breach, individually or in the aggregate, would or would reasonably be expected to result in a Material Adverse Change or have a Material Adverse Effect in respect of Arsenal, or materially impedes or would reasonably be expected to materially impede completion of the Arrangement, and Arsenal does not cure the breach within five (5) Business Days after receipt of written notice thereof from Lone Pine (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date);

(each of the above, if not timely cured in accordance with its terms, upon expiration of such cure period being a **“Lone Pine Damages Event”**), then the Arrangement Agreement may be terminated pursuant to subsection 7.1(c) of the Arrangement Agreement or subsection 7.1(e) of the Arrangement Agreement, and Arsenal shall pay to Lone Pine the Lone Pine Termination Fee, as liquidated damages, in immediately available funds, to an account designated by Lone Pine, within two (2) Business Days after such termination or, in the case of subsection 6.1(b) of the Arrangement Agreement, after completion of such Acquisition Proposal is completed. Following the Lone Pine Damages Event but prior to payment of the Lone Pine Termination Fee, Arsenal shall be deemed to hold such funds in trust for Lone Pine. Under no circumstances shall Arsenal be required to pay more than one Lone Pine Termination Fee pursuant to section 6.1 of the Arrangement Agreement.

Pursuant to the Arrangement Agreement, **“Lone Pine Termination Fee”** is defined as (i) in the event of a Lone Pine Damages Event specified in any of subsections 6.1(a), 6.1(b), 6.1(c) or 6.1(d) of the Arrangement Agreement, the sum of \$2.75 million or (ii) in the event of a Lone Pine Damages Event specified in either subsection 6.1(e) of the Arrangement Agreement or subsection 6.1(f) of the Arrangement Agreement (and provided that no other Lone Pine Damages Event shall have occurred) the sum of \$1.5 million.

If, at any time after the execution and delivery of the Arrangement Agreement and prior to the Effective Date or termination of the Arrangement Agreement

- (a) Lone Pine breaches any of its covenants or other obligations made in the Arrangement Agreement, which breach, individually or in the aggregate, would or would reasonably be expected to result in a Material Adverse Change or have a Material Adverse Effect in respect of Lone Pine, or materially impedes or would reasonably be expected to materially impede completion of the Arrangement, and Lone Pine does not cure the breach within five (5) Business Days after receipt of written notice thereof from Arsenal (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date); or
- (b) Lone Pine breaches any of its representations or warranties made in the Arrangement Agreement, which breach, individually or in the aggregate, would or would reasonably be expected to result in a Material Adverse Change or have a Material Adverse Effect in respect of Lone Pine, or materially impedes or would reasonably be expected to materially impede completion of the Arrangement, and Lone Pine does not cure the breach within five (5) Business Days after receipt of written notice thereof from Arsenal (except that no cure period shall be provided for a breach which by its nature cannot be cured and, in no event, shall any cure period extend beyond the Outside Date);

(each of the above, if not timely cured in accordance with its terms, upon expiration of such cure period being a **“Arsenal Damages Event”**), then the Arrangement Agreement may be terminated pursuant to subsection 7.1(d) of the Arrangement Agreement, and Lone Pine shall pay to Arsenal the Arsenal Termination Fee, as liquidated damages, in immediately available funds, to an account designated by Arsenal, within two (2) Business Days after such termination. Following the Arsenal Damages Event but prior to payment of the Arsenal Termination Fee, Lone Pine shall be deemed to hold such funds in trust for Arsenal. Under no circumstances shall Lone Pine be required to pay more than one Arsenal Termination Fee pursuant to section 6.2 of the Arrangement Agreement.

Pursuant to the Arrangement Agreement **“Arsenal Termination Fee”** is defined as the sum of \$1.5 million.

### ***Termination***

The Arrangement Agreement may be terminated at any time prior to the Effective Date:

- (a) by mutual written consent of Lone Pine and Arsenal;



- (b) as provided in subsection 5.4(b) of the Arrangement Agreement, provided that the failure to satisfy the particular condition precedent being relied upon as a basis for termination did not occur as a result of a breach by the party seeking to rely thereon of any of its covenants or other obligations under the Arrangement Agreement;
- (c) by Lone Pine upon the occurrence of a Lone Pine Damages Event as provided in section 6.1 of the Arrangement Agreement;
- (d) by Arsenal upon the occurrence of an Arsenal Damages Event as provided in section 6.2 of the Arrangement Agreement; or
- (e) by Arsenal upon the occurrence of a Lone Pine Damages Event set forth in subsection 6.1(c) of the Arrangement Agreement and the payment by Arsenal to Lone Pine of the amount required by section 6.1 of the Arrangement Agreement, provided that Arsenal has complied with its covenants and other obligations under section 3.4 of the Arrangement Agreement.

In the event of the termination of the Arrangement Agreement in the circumstances set out in section 7.1 of the Arrangement Agreement, the Arrangement Agreement shall forthwith become void and no party shall have any liability or further obligation to the other under the terms of the Arrangement Agreement except with respect to the obligations set forth in or as otherwise specified in Article 6 of the Arrangement Agreement and Article 8 of the Arrangement Agreement, and each party's obligations under the Confidentiality Agreement, which shall survive termination of the Arrangement Agreement.

Unless otherwise provided in the Arrangement Agreement, the exercise by either party of any right of termination in the Arrangement Agreement shall be without prejudice to any other remedy available to such party.

**Item 5.2      *Disclosure of Restructuring Transactions***

Not Applicable.

**Item 6          *Reliance on subsection 7.1(2) of National Instrument 51-102***

Not applicable.

**Item 7          *Omitted Information***

Not applicable.

**Item 8          *Executive Officer***

For further information, please contact Mr. J. Paul Lawrence, Vice President, Finance and Chief Financial Officer of the Company, at the above mentioned address or at (403) 262-4854.

**Item 9          *Date of Report***

This report is dated as of the 1<sup>st</sup> day of July, 2016.

***Forward-Looking Statements***

*This material change report contains forward-looking statements. More particularly, this material change report contains statements concerning expected terms of the Arrangement, expected closing date of the Arrangement, and expected credit facilities to be available pursuant to the Arrangement. In addition, the use of any of the words "guidance", "initial", "scheduled", "can", "will", "prior to", "estimate", "anticipate", "believe", "should", "unaudited", "forecast", "future", "continue", "may", "expect", and similar expressions are intended to identify forward-looking statements. In respect of the forward-looking information and statements concerning anticipated benefits and completion of the proposed Arrangement and the anticipated timing for completion of the Arrangement, Lone Pine and Arsenal have provided such information and statements in reliance on certain assumptions that they believe are reasonable at this time, including assumptions as to the time required to*

*prepare and mail shareholder meeting materials, including the required information circular; the ability of Lone Pine and Arsenal to each receive, in a timely manner, the necessary regulatory, court, shareholder, stock exchange and other third party approvals, including but not limited to the receipt of applicable competition approvals; the ability of each of Lone Pine and Arsenal to satisfy, in a timely manner, the other conditions to the closing of the Arrangement; and expectations and assumptions concerning, among other things: commodity prices and interest and foreign exchange rates; planned synergies, capital efficiencies and cost-savings; applicable tax laws; future production rates; the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services. Other specific forward-looking statements contained in this report such as, outstanding debt at closing, estimated production levels, anticipated completion of non-core asset dispositions by Arsenal, estimated combined tax pools and borrowing base available to New Lone Pine on closing, are provided based on, among other assumptions described herein. To the extent that the proposed sales are not complete, such forward-looking statements may be materially inaccurate. Although Arsenal believes that the expectations and assumptions on which the forward-looking statements are based are reasonable, undue reliance should not be placed on the forward-looking statements because they can give no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects, capital expenditures, acquisitions or other corporate transactions; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity price and exchange rate fluctuations, changes in legislation affecting the oil and gas industry and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures. Risks and uncertainties inherent in the nature of the Arrangement include the failure of Arsenal and Lone Pine to obtain necessary shareholder, regulatory, court and other third party approvals, or to otherwise satisfy the conditions to completion of the Arrangement, in a timely manner, or at all. Failure to so obtain such approvals, or the failure of each of Arsenal and Lone Pine to otherwise satisfy the conditions to the Arrangement, may result in the Arrangement not being completed on the proposed terms, or at all. To the extent any guidance or forward looking statements herein constitute a financial outlook, they are included herein to provide readers with an understanding of management's plans and assumptions for budgeting purposes and readers are cautioned that the information may not be appropriate for other purposes. The forward-looking statements contained in this material change report are made as of the date hereof and Arsenal undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.*