LONG RUN EXPLORATION LTD.

Financial Statements

June 30, 2015

Statement of Financial Position

($000s)	**June 30, 2015**	December 31, 2014
	(unaudited)	
ASSETS		
CURRENT		
Accounts receivable	**47,818**	65,135
Deposits and prepaid expenses	**19,437**	14,423
Fair value of financial derivatives *(note 13)*	**29,583**	65,438
	96,838	144,996
Exploration and evaluation assets *(note 4)*	**1,519**	5,635
Property and equipment *(note 5)*	**1,555,022**	1,627,050
Deferred income tax asset	**168,790**	162,025
Fair value of financial derivatives *(note 13)*	**848**	-
	1,823,017	1,939,706
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**75,558**	132,439
Bank loan *(note 7)*	**245,000**	100,000
Fair value of financial derivatives *(note 13)*	**336**	336
	320,894	232,775
Bank loan *(note 7)*	**380,943**	511,717
Convertible debentures *(note 8)*	**68,846**	68,145
Decommissioning liabilities *(note 6)*	**410,267**	411,209
Fair value of financial derivatives *(note 13)*	**140**	85
	1,181,090	1,223,931
SHAREHOLDERS' EQUITY		
Share capital *(note 9)*	**1,006,799**	1,006,799
Equity component of convertible debentures *(note 8)*	**3,483**	3,483
Contributed surplus *(note 9)*	**28,652**	26,160
Retained earnings (deficit)	**(397,007)**	(320,667)
	641,927	715,775
	1,823,017	1,939,706

Commitments and contingencies *(note 15)*

See accompanying notes to the financial statements.

Statement of Earnings (Loss) and Comprehensive Income (Loss)

	Three months ended June 30		Six months ended June 30	
($000s, except per share amounts) (unaudited)	**2015**	2014	**2015**	2014
INCOME				
Petroleum and natural gas revenue	**93,436**	158,678	**174,760**	310,564
Royalties	**(6,400)**	(17,598)	**(12,721)**	(36,064)
	87,036	141,080	**162,039**	274,500
Gain (loss) on financial derivatives *(note 13)*				
- realized	**16,432**	(10,157)	**42,277**	(17,579)
- unrealized	**(27,587)**	972	**(35,062)**	(9,811)
	75,881	131,895	**169,254**	247,110
EXPENSES				
Operating	**36,207**	37,614	**77,391**	73,808
Transportation	**4,784**	5,287	**10,205**	10,830
General and administration *(note 11)*	**7,929**	9,134	**14,335**	17,863
Share-based compensation *(note 9)*	**823**	593	**1,773**	1,175
Interest	**8,624**	5,507	**16,499**	10,423
Accretion *(note 6, 8)*	**2,665**	2,659	**5,340**	4,781
Depletion and depreciation *(note 5)*	**58,103**	50,460	**118,687**	100,123
Exploration	**-**	(48)	**4**	518
Loss (gain) on disposal of assets *(note 5)*	**6,882**	(7,356)	**4,739**	(9,684)
	126,017	103,850	**248,973**	209,837
EARNINGS (LOSS) BEFORE TAX	**(50,136)**	28,045	**(79,719)**	37,273
Income taxes				
Deferred income tax expense (recovery)	**-**	7,203	**(6,765)**	9,660
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(50,136)**	20,842	**(72,954)**	27,613
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) PER SHARE *(note 9)*				
Basic	**(0.26)**	0.16	**(0.38)**	0.21
Diluted	**(0.26)**	0.15	**(0.38)**	0.21

See accompanying notes to the financial statements.

Statement of Changes in Shareholders' Equity

($000s) (unaudited)	**Share Capital**	**Equity Component of Convertible Debentures**	**Contributed Surplus**	**Retained Earnings (Deficit)**	**Total**
	(note 9)	*(note 8)*	*(note 9)*		
January 1, 2014	657,666	-	23,377	(64,066)	616,977
Issuance of common shares	346,317	-	-	-	346,317
Share-based compensation	-	-	3,440	-	3,440
Options exercised	2,816	-	(657)	-	2,159
Comprehensive loss	-	-	-	(190,395)	(190,395)
Dividends declared *(note 9)*	-	-	-	(66,206)	(66,206)
Convertible debentures issued	-	3,483	-	-	3,483
December 31, 2014	1,006,799	3,483	26,160	(320,667)	715,775
Share-based compensation	-	-	2,492	-	2,492
Comprehensive loss	-	-	-	(72,954)	(72,954)
Dividends declared *(note 9)*	-	-	-	(3,386)	(3,386)
June 30, 2015	**1,006,799**	**3,483**	**28,652**	**(397,007)**	**641,927**
January 1, 2014	657,666	-	23,377	(64,066)	616,977
Issuance of common shares	115,168	-	-	-	115,168
Share-based compensation	-	-	1,842	-	1,842
Options exercised	2,396	-	(559)	-	1,837
Comprehensive earnings	-	-	-	27,613	27,613
Dividends declared *(note 9)*	-	-	-	(27,107)	(27,107)
Convertible debentures issued	-	3,483	-	-	3,483
June 30, 2014	775,230	3,483	24,660	(63,560)	739,813

See accompanying notes to the financial statements.

Statement of Cash Flows

($000s) (unaudited)	Three months ended June 30 **2015**	Three months ended June 30 2014	Six months ended June 30 **2015**	Six months ended June 30 2014
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings (loss)	**(50,136)**	20,842	**(72,954)**	27,613
Items not requiring cash:				
Unrealized loss (gain) on financial derivatives *(note 13)*	**27,587**	(972)	**35,062**	9,811
Share-based compensation *(note 9)*	**823**	593	**1,773**	1,175
Accretion *(note 6, 8)*	**2,665**	2,659	**5,340**	4,781
Depletion and depreciation *(note 5)*	**58,103**	50,460	**118,687**	100,123
Loss (gain) on disposal of assets *(note 5)*	**6,882**	(7,356)	**4,739**	(9,684)
Deferred income tax expense (recovery)	**-**	7,203	**(6,765)**	9,660
Abandonment costs *(note 6)*	**(364)**	(697)	**(2,981)**	(2,043)
Change in non-cash working capital *(note 14)*	**(7,975)**	(5,452)	**3,516**	(14,375)
	37,585	67,280	**86,417**	127,061
INVESTING ACTIVITIES				
Capital expenditures *(note 4, 5)*	**(8,770)**	(57,330)	**(54,085)**	(158,179)
Acquisitions *(note 5)*	**(552)**	(233,610)	**(1,147)**	(238,372)
Dispositions *(note 5)*	**10,082**	19,894	**12,069**	28,336
Change in non-cash working capital *(note 14)*	**(35,886)**	(20,790)	**(44,622)**	5,122
	(35,126)	(291,836)	**(87,785)**	(363,093)
FINANCING ACTIVITIES				
Bank loan issuance	**241**	123,559	**14,226**	70,947
Issuance of convertible debentures, net of costs *(note 8)*	**-**	(7)	**-**	71,566
Dividends declared *(note 9)*	**-**	(14,468)	**(3,386)**	(27,107)
Issuance of common shares *(note 9)*	**-**	120,902	**-**	121,840
Share issue costs *(note 9)*	**-**	(6,450)	**-**	(6,450)
Change in non-cash working capital *(note 14)*	**(2,700)**	1,020	**(9,472)**	5,236
	(2,459)	224,556	**1,368**	236,032
CHANGE IN CASH	**-**	-	**-**	-
CASH, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH, END OF PERIOD	**-**	-	**-**	-
SUPPLEMENTAL INFORMATION				
Interest paid	**6,824**	4,226	**15,236**	8,100

See accompanying notes to the financial statements.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2015

1. REPORTING ENTITY

Long Run Exploration Ltd. ("Long Run" or the "Company"), is incorporated under the *Business Corporations Act* (Alberta).

The Company is in the business of development, acquisition, exploration and production of oil and natural gas in western Canada.

The principal address of the Company is located at 400, 250 2nd Street SW, Calgary, Alberta, T2P 0C1. Long Run's outstanding common shares and convertible debentures are listed on the Toronto Stock Exchange under the symbols "LRE" and "LRE.DB", respectively.

2. BASIS OF PRESENTATION

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. The interim financial statements do not include all of the information required for full annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the annual audited financial statements for the year ended December 31, 2014.

The interim financial statements follow the same accounting policies as the annual audited financial statements for the year ended December 31, 2014.

The financial statements have been prepared on the historical cost basis except where noted in the accounting policies. The financial statements are presented in Canadian dollars.

The financial statements were authorized for issue by the Board of Directors on July 29, 2015.

3. CHANGES IN ACCOUNTING POLICIES

There were no new or amended standards issued during the six months ended June 30, 2015 that are applicable to the Company in the current or future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in Note 4 of the annual financial statements for the year ended December 31, 2014.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2015

4. EXPLORATION AND EVALUATION ASSETS

($000s)	**June 30, 2015**	December 31, 2014
Balance, beginning of year	**5,635**	10,758
Additions	**157**	27
Transfers to property and equipment	**(1,037)**	(5,150)
Disposals	**(3,236)**	-
Balance, end of period	**1,519**	5,635

5. PROPERTY AND EQUIPMENT

($000s)	**June 30, 2015**	December 31, 2014
Property and equipment cost	**2,851,356**	2,808,959
Accumulated depletion, depreciation and impairments	**(1,296,334)**	(1,181,909)
Net book value	**1,555,022**	1,627,050

Property and Equipment Cost

($000s)	**June 30, 2015**	December 31, 2014
Balance, beginning of year	**2,808,959**	1,769,893
Additions	**55,722**	311,488
Acquisitions, including decommissioning costs	**1,147**	753,297
Transfers from exploration and evaluation assets	**1,037**	5,150
Transfers to assets held for sale	**-**	(6,000)
Change in decommissioning liabilities estimate (*note 6*)	**-**	52,022
Disposals	**(15,509)**	(76,891)
Balance, end of period	**2,851,356**	2,808,959

Accumulated Depletion, Depreciation and Impairments

($000s)	**June 30, 2015**	December 31, 2014
Balance, beginning of year	**(1,181,909)**	(585,542)
Depletion and depreciation expense	**(118,687)**	(234,829)
Disposals	**4,262**	38,462
Impairments	**-**	(400,000)
Balance, end of period	**(1,296,334)**	(1,181,909)

Proceeds of $12.1 million were received for the disposition of a pipeline and minor producing properties during the first six months of 2015 (June 30, 2014 - $28.3 million). The pipeline had been held for sale at December 31, 2014, with $6.0 million included in deposits and prepaids on the statement of financial position. The pipeline was sold in April 2015 for proceeds of $8.1 million. During the first six months of 2015, a loss on the disposal of the minor properties of $4.7 million was recognized (June 30, 2014 - $9.7 million gain).

At June 30, 2015, undeveloped land of $24.2 million was excluded from costs subject to depletion (June 30, 2014 - $28.4 million). In addition, future development costs of $1.3 billion were added into costs subject to depletion (June 30, 2014 - $1.0 billion).

On May 30, 2014, the Company closed the acquisition of assets in the Deep Basin area of Alberta focused on development of the Cardium for $228.8 million. A $120.0 million bought deal equity financing was closed in conjunction with the acquisition (see Note 9). Details of the transaction are as follows:

($000s)	
Property and equipment	258,079
Decommissioning liabilities	(29,312)
Fair value of net assets	228,767
Cash consideration paid	228,767

On August 6, 2014 the Company acquired $406.7 million of additional Cardium assets through the acquisition of Crocotta Energy Inc. ("Crocotta").

6. DECOMMISSIONING LIABILITIES

($000s)	**June 30, 2015**	December 31, 2014
Balance, beginning of year	**411,209**	254,413
Accretion expense	**4,639**	9,286
Liabilities acquired	**-**	113,681
Liabilities incurred	**1,075**	6,306
Disposal of liabilities	**(3,675)**	(13,090)
Settlement of liabilities	**(2,981)**	(11,409)
Change in estimates	**-**	52,022
Balance, end of period	**410,267**	411,209

The Company's decommissioning liabilities result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. At June 30, 2015, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities was approximately $556.0 million, which will be incurred over the next 40 years (December 31, 2014 - $560.0 million). At June 30, 2015, the Company used a risk free rate of 2.25% and an inflation rate of 2.0% to calculate the present value of the decommissioning liabilities (December 31, 2014 - risk free rate of 2.25% and inflation rate of 2.0%). The change in estimates during 2014 was primarily attributable to the change in the period end risk-free rate.

7. AVAILABLE CREDIT FACILITIES

On May 29, 2015, the Company completed the semi-annual review of its credit facilities with its banking syndicate. Credit facilities were maintained at $695.0 million. The amended credit facilities consist of a $410.0 million revolving syndicated facility, a $40.0 million revolving operating facility and a $245.0 million non-revolving syndicated facility. Bank fees related to the amended credit facilities totalled $2.9 million. At June 30, 2015, $625.9 million was drawn against the credit facilities (December 31, 2014 - $611.7 million).

The revolving syndicated facility and the revolving operating facility, which comprise the Company's borrowing base facilities, are reviewed semi-annually and terminate on May 31, 2017 unless extended. The non-revolving syndicated facility is due on May 29, 2016 and has been classified as a current liability. Prior to May 29, 2016, proceeds received on the sale of assets in excess of $30.0 million in aggregate are required to be applied against the non-revolving syndicated facility.

Under the borrowing base facilities, total borrowings cannot exceed the borrowing base, which is determined by the lenders on a semi-annual basis, or upon the occurrence of a material event. The level of the borrowing base is determined by the lenders based upon their review of, among other things, the Company's reserves and the value thereof, utilizing commodity prices determined by the lenders which may be different than those utilized by the Company's independent reserve evaluator. The next borrowing base review will occur prior to November 30, 2015.

Security for the credit facilities at June 30, 2015 included a demand debenture for $1.5 billion which provides for a first ranking security interest and floating charge over all of the assets and property of the Company.

The credit facilities bear interest at the prime rate or Libor rate, plus a margin, and in respect of banker's acceptances requires the payment of a stamping fee equal to a margin. The margins applicable to the borrowing base facilities range from 1.00% per annum to 4.50% per annum, based upon the ratio of the Company's debt to earnings before interest, taxes, exploration expenses, and all non-cash items including depletion and depreciation, unrealized gain/loss on derivatives, gain/loss on sale of assets, accretion and share based compensation ("Bank EBITDA"). Interest and fees payable on the non-revolving syndicated facility are based upon the borrowing base facility margins plus 3.50%. For the six months ended June 30, 2015, the effective interest rate, including standby and other fees, was 4.7% (June 30, 2014 – 4.4%).

At June 30, 2015, the Company was in compliance with all covenants, obligations and conditions of its credit agreement. The covenants under the credit facilities include covenants which relate to senior debt and total debt to Bank EBITDA, interest coverage, permitted distributions, permitted dispositions and permitted hedging.

At June 30, 2015, the Company had letters of credit outstanding totalling $6.1 million (December 31, 2014 – $4.5 million).

8. CONVERTIBLE DEBENTURES

On January 28, 2014, the Company issued $75.0 million face value of convertible unsecured subordinated debentures at par. The debentures bear an annual interest rate of 6.40%, payable semi-annually in arrears. Prior to maturity on January 31, 2019, the debentures are convertible into Common Shares of the Company at a conversion price of $7.40 per Common Share, subject to adjustment in certain events.

9. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of Common Shares, Common Non-Voting Shares, Non-Voting Convertible Shares and First Preferred Shares without nominal or par value.

Common Shares

	June 30, 2015		December 31, 2014	
(000s)	**Number of shares**	**Amount $**	Number of shares	Amount $
Balance, beginning of year	**193,498**	**1,006,799**	110,143	551,403
Issuance of common shares	**-**	**-**	23,530	120,003
Issuance of common shares upon business combination	**-**	**-**	43,829	231,419
Issued on conversion of Non-Voting Convertible Shares	**-**	**-**	15,513	106,263
Issued on exercise of stock options	**-**	**-**	483	2,159
Share issue costs, net of deferred tax of $1.7 million	**-**	**-**	-	(5,105)
Transfer from contributed surplus on exercise of stock options	**-**	**-**	-	657
Balance, end of period	**193,498**	**1,006,799**	193,498	1,006,799

On April 30, 2014, the Company closed an equity issuance of 23.5 million Subscription Receipts at $5.10 per Subscription Receipt for gross proceeds of $120 million. On May 30, 2014, in conjunction with the closing of the acquisition of Deep Basin properties, holders of the Subscription Receipts received one Common Share of the Company for each Subscription Receipt held.

On May 28, 2014, all of the Company's outstanding Non-Voting Convertible Shares were converted to Common Shares of the Company.

On August 6, 2014, the Company issued 43.8 million Common Shares at $5.28 per share in connection with the acquisition of Crocotta.

Dividends

Dividends declared are subject to approval by the Board of Directors on a monthly basis. In February 2015, the monthly dividend was suspended by the Board of Directors. During the six months ended June 30, 2015, $3.4 million in dividends had been declared and paid (June 30, 2014 - $27.1 million in dividends declared, of which $21.9 million had been paid).

Contributed Surplus

($000s)	**June 30, 2015**	December 31, 2014
Balance, beginning of year	**26,160**	23,377
Share-based compensation cost	**2,492**	3,440
Transfer to share capital on exercise of options	**-**	(657)
Balance, end of period	**28,652**	26,160

Share Option Plan

	June 30, 2015		December 31, 2014	
	Number of Options *(000s)*	**Weighted Average Exercise Price ($)**	Number of Options *(000s)*	Weighted Average Exercise Price ($)
Outstanding, beginning of year	**8,879**	**4.50**	10,266	4.50
Forfeited	**(611)**	**4.49**	(904)	4.52
Exercised	**-**	**-**	(483)	4.47
Outstanding, end of period	**8,268**	**4.50**	8,879	4.50

At June 30, 2015, option exercise prices ranged from $4.03 to $5.30 per option for the 8.3 million options outstanding. The weighted average exercise price was $4.50 per option and the weighted average remaining life of the options was 2.6 years. At June 30, 2015, there were 5.2 million options exercisable, with a weighted average exercise price of $4.49 per option. The Company has not issued options since December 31, 2013.

For the six months ended June 30, 2015, $0.5 million was recognized as share-based compensation (June 30, 2014 - $1.8 million), of which $0.4 million was expensed (June 30, 2014 - $1.2 million).

Restricted and Performance Award Incentive Plan

Number of Restricted Awards (000s)	**June 30, 2015**	December 31, 2014
Outstanding, beginning of year	**-**	-
Granted	**5,196**	-
Forfeited	**(312)**	-
Outstanding, end of period	**4,884**	-

Under the Restricted and Performance Award Incentive Plan, grantees will receive either cash or Common Shares, at the discretion of the Company, in relation to the value of a specified number of underlying Common Shares. The Company intends to settle the awards with equity. The awards vest equally over three years, on the first, second and third anniversaries of the grant date. The maximum number of Common Shares issuable is limited to 5% of the issued and outstanding Common Shares. During 2015, a total of 5.2 million restricted awards were granted. Each restricted award entitles the holder to a Common Share or the value of a Common Share (subject to certain adjustments, including for dividends paid on the Common Shares) on the vesting date.

At June 30, 2015, there were 4.9 million restricted share awards outstanding with a weighted average remaining life of 2.5 years. At June 30, 2015, none of the restricted share awards were exercisable.

The grant date fair values of share-based compensation awards are recognized over the vesting periods of the awards, with an offsetting credit to contributed surplus. The estimated forfeiture rate is adjusted to reflect the actual number of awards that vest. The related share-based compensation expense previously included in contributed surplus is credited to share capital on the exercise of the stock awards.

The fair value of awards under the Company's incentive plan is determined using a Black-Scholes pricing model. The following assumptions were made during the period ended June 30, 2015: risk-free interest rate of 1.0 - 1.4%; dividend yield of 1.2%; volatility factor of the market price of the Company's Common Shares of 43 - 54%; and expected award lives of one to three years. Restricted share awards granted during the period ended June 30, 2015 had an average fair value of $1.45 per award.

For the six months ended June 30, 2015, $2.0 million was recognized as share-based compensation (June 30, 2014 - nil), of which $1.4 million was expensed (June 30, 2014 - nil).

Earnings (Loss) Per Share

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Net earnings (loss) *($000s)*	**(50,136)**	20,842	**(72,954)**	27,613
Weighted average number of shares *(000s)*				
Shares outstanding, beginning of period	**193,498**	125,865	**193,498**	125,656
Share options exercised	**-**	152	**-**	219
Equity issuance of Common Shares	**-**	8,274	**-**	4,160
Weighted average shares outstanding - basic	**193,498**	134,291	**193,498**	130,035
Weighted average shares outstanding - diluted	**193,498**	135,437	**193,498**	130,916
Basic earnings (loss) per share	**(0.26)**	0.16	**(0.38)**	0.21
Diluted earnings (loss) per share	**(0.26)**	0.15	**(0.38)**	0.21

The diluted weighted average number of shares is calculated by assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase Common Shares of the Company at the average market price during the period. As the Company incurred a net loss for the six months ended June 30, 2015, all options, all restricted awards and the effect of the conversion of convertible debentures were excluded from the calculation of diluted earnings (loss) per share (June 30, 2014 – 0.5 million options).

10. CAPITAL RISK MANAGEMENT

The Company's primary capital management objective is to strengthen our financial position and financial flexibility. To manage the capital structure, the Company may adjust capital spending, dispose of properties, adjust dividends declared, issue new shares, issue new debt or repay existing debt.

In managing its capital structure, the Company monitors financial metrics as indicators of overall financial strength. The financial metrics the Company currently monitors include net debt to funds flow from operations and debt to debt plus equity.

The Company's objective is to target net debt to funds flow from operations at or below a ratio of 1.5 and debt to debt plus equity at a ratio at or below 0.4. While the Company may exceed these rates from time to time, efforts are made after a period of variation to bring the measures back in line. The net debt to funds flow from operations at June 30, 2015 was calculated based on second quarter funds flow annualized. The resulting net debt to funds flow from operations of 3.9 times reflects the lower commodity prices experienced in the second quarter. At June 30, 2015, the Company had a debt to debt plus equity ratio of 0.52 times. During 2015, the Company plans to repay $100.0 million of its debt to improve its financial position. The repayment is expected to be primarily funded through asset dispositions and funds flow from operations exceeding capital expenditures.

Net Debt to Funds Flow from Operations

($000s, except ratios)	**June 30, 2015**	December 31, 2014
Net Debt		
Bank loan	**625,943**	611,717
Accounts payable and accrued liabilities	**75,558**	132,439
Accounts receivable	**(47,818)**	(65,135)
Deposits and prepaid expenses	**(19,437)**	(14,423)
Convertible debentures - face value	**75,000**	75,000
Net Debt	**709,246**	739,598
Funds Flow from Operations - Quarter Ended		
Petroleum and natural gas revenue	**93,436**	133,354
Royalties	**(6,400)**	(14,835)
Gain on financial derivatives - realized	**16,432**	14,145
Operating expense	**(36,207)**	(42,684)
Transportation expense	**(4,784)**	(5,891)
General and administration	**(7,929)**	(7,793)
Interest	**(8,624)**	(8,038)
Exploration expense	**-**	(86)
Capital and other taxes	**-**	6
Funds Flow from Operations - Quarter Ended	**45,924**	68,178
Funds Flow from Operations - Annualized *(Quarterly x 4)*	**183,696**	272,712
Net Debt to Funds Flow from Operations *(target <= 1.5)*	**3.9**	2.7

Debt to Debt plus Equity

($000s, except ratios)	**June 30, 2015**	December 31, 2014
Debt		
Bank loan	**625,943**	611,717
Convertible debentures - face value	**75,000**	75,000
Debt	**700,943**	686,717
Debt plus Equity		
Debt	**700,943**	686,717
Shareholders' equity	**641,927**	715,775
Debt plus Equity	**1,342,870**	1,402,492
Debt to Debt plus Equity *(target <= 0.4)*	**0.52**	0.49

11. GENERAL AND ADMINISTRATION EXPENSE

($000s)	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Salary and employee	**8,053**	8,456	**14,784**	19,654
Other	**4,480**	5,948	**8,593**	9,113
Gross expenses	**12,533**	14,404	**23,377**	28,767
Capitalized costs	**(2,932)**	(4,128)	**(5,862)**	(8,639)
Operating recoveries	**(1,672)**	(1,142)	**(3,180)**	(2,265)
General and administration	**7,929**	9,134	**14,335**	17,863

During the three and six months ended June 30, 2014, general and administrative expenses included $2.0 million of transaction costs primarily related to the Deep Basin acquisition.

12. RELATED PARTY TRANSACTIONS

A director of the Company and the corporate secretary are partners of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). For the six months ended June 30, 2015, general and administrative expense included amounts totalling $0.2 million charged to the Company by BDP (June 30, 2014 - $0.6 million). As at June 30, 2015, a payable of $0.1 million was owing to BDP (December 31, 2014 - $0.1 million).

13. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair Value of Financial Assets and Liabilities

Fair value is defined as the price that would be received upon selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's financial instruments recognized in the statement of financial position consist of accounts receivable, accounts payable, bank loan, convertible debentures and financial derivatives. The carrying values of accounts receivable and accounts payable approximate their fair values due to their short-term nature. The carrying value of the bank loan approximates fair value due to the floating interest rate on the facilities. At June 30, 2015, the fair value of the convertible debentures was $50.3 million, based on Level 1 inputs as the debentures are traded in an active market.

Financial Derivative Contracts

The Company enters into financial derivative contracts for the purpose of protecting cash flows generated from operations from the volatility of commodity prices and changes in interest and electricity rates.

The Company had the following commodity financial contracts in place as at June 30, 2015:

	Volume	Pricing
Crude Oil		
Costless Collars		
July 1, 2015 – December 31, 2015	2,500 Bbl/d	WTI US $95.00 - $97.50/Bbl
Fixed Price		
July 1, 2015 – December 31, 2015	1,500 Bbl/d	WTI CDN $74.50/Bbl
January 1, 2016 – December 31, 2016	500 Bbl/d	WTI CDN $77.55/Bbl
January 1, 2016 – December 31, 2016	500 Bbl/d	WTI CDN $77.50/Bbl
Calls		
July 1, 2015 – December 31, 2015	500 Bbl/d	WTI US $85.00/Bbl
Natural Gas		
Costless Collars		
July 1, 2015 – December 31, 2015	20,000 GJ/d	CDN $3.50 - $4.00/GJ
July 1, 2015 – December 31, 2015	11,000 GJ/d	CDN $3.50 - $4.35/GJ
July 1, 2015 – December 31, 2015	5,000 GJ/d	CDN $4.00 - $4.51/GJ
July 1, 2015 – December 31, 2015	5,000 GJ/d	CDN $4.00 - $4.50/GJ
Fixed Price		
July 1, 2015 – December 31, 2015	20,000 GJ/d	CDN $2.80/GJ
July 1, 2015 – December 31, 2015	5,000 GJ/d	CDN $2.72/GJ
January 1, 2016 – December 31, 2016	30,000 GJ/d	CDN $3.00/GJ
January 1, 2016 – December 31, 2016	10,000 GJ/d	CDN $3.05/GJ
Electricity		
July 1, 2015 – December 31, 2016	3.0 MW/h	CDN $49.50 MW/h

Financial Derivative Contracts Financial Statement Recognition

The Company recognizes the fair value of its financial derivative contracts on the statement of financial position each reporting period, with the change in fair value recognized as an unrealized gain or loss on the statement of earnings.

The fair values of the Company's financial derivatives were determined using an income valuation approach based upon Level 3 inputs. The valuations, which were provided by the counterparties with whom the transactions were completed, were reviewed by the Company for reasonableness, giving consideration to factors such as the commodity forward price strips and historical volatilities. There have been no transfers between the hierarchy levels during the period.

($000s)	June 30, 2015	December 31, 2014
Assets - Fair value of financial derivatives		
Current	**29,583**	65,438
Long-term	**848**	-
	30,431	65,438
Liabilities - Fair value of financial derivatives		
Current	**336**	336
Long-term	**140**	85
	476	421
Net Asset	**29,955**	65,017

Of the total June 30, 2015 financial liability, $0.3 million relates to 2015 and $0.2 million relates to 2016.

($000s)	Crude Oil	Natural Gas	Other	Total
Six months ended June 30, 2015				
Realized (gain) loss on financial derivatives	(33,777)	(8,582)	82	(42,277)
New contracts	188	2,817	-	3,005
Change in value	3,413	698	99	4,210
Unrealized gain (loss) on financial derivatives	(30,176)	(5,067)	181	(35,062)
December 31, 2014 - Net Asset (Liability)	49,844	15,427	(254)	65,017
June 30, 2015 - Net Asset (Liability)	**19,668**	**10,360**	**(73)**	**29,955**
Six months ended June 30, 2014				
Realized loss on financial derivatives	12,810	4,643	126	17,579
New contracts	(358)	(3,066)	-	(3,424)
Change in value	(19,034)	(4,986)	54	(23,966)
Unrealized gain (loss) on financial derivatives	(6,582)	(3,409)	180	(9,811)
December 31, 2013 - Net Liability	(17,103)	(450)	(218)	(17,771)
June 30, 2014 - Net Liability	(23,685)	(3,859)	(38)	(27,582)

Market risk

Market risk includes uncertainty arising from possible movements in commodity prices and interest rates and the impact of such movements on the future performance of the business. Commodity price and interest rate movements could adversely affect the value of the Company’s financial assets, liabilities and expected future cash flows.

To partially mitigate exposure to commodity price risk, the Company enters into various financial derivative instruments. The instruments currently outstanding are described above. To mitigate exposure to interest rate risk, the Company carries debt at both fixed and floating interest rates. The Company may also manage interest rate risk through the use of interest rate swaps. The Company’s bank debt facilities have a floating interest rate that fluctuates based on prevailing market conditions.

When assessing the potential impact of price changes on financial derivative contracts outstanding at June 30, 2015, it is estimated that a $1.00/Bbl change in the price of oil would change the unrealized loss by approximately $1.3 million. A $0.10/GJ change in the price of natural gas would change the unrealized loss by approximately $2.8 million. Based on the bank debt outstanding as at June 30, 2015, a one percent change in the interest rate would impact interest expense for a six month period by approximately $3.1 million. The Company's convertible debentures bear interest at a fixed annual interest rate of 6.4%.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due, causing a financial loss. The Company's accounts receivable are with customers and partners in the oil and natural gas industry and are subject to normal credit risks. A portion of the Company's production is currently sold through partners under normal industry sale and payment terms.

During the six months ended June 30, 2015, four third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue. At June 30, 2015, approximately 34% of the accounts receivable balance is due from three customers.

Accounts Receivable *($000s)*	**June 30, 2015**	December 31, 2014
Less than 90 days	**42,710**	58,019
Greater than 90 days	**5,108**	7,116
Total	**47,818**	65,135

Counterparties to the Company's financial derivative contracts are major Canadian financial institutions, having investment grade credit ratings.

Liquidity risk

Liquidity risk arises through excess financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient capital in order to meet its current and future liquidity requirements. The Company believes that it has access to sufficient capital through internally generated cash flows, external debt and equity sources, and credit facilities to meet current spending forecasts.

At June 30, 2015, $625.9 million was drawn against the Company's credit facilities, with $62.9 million of borrowing capacity available. During 2015, the Company plans to repay $100.0 million of its bank debt to improve its financial position. The repayment is expected to be primarily funded through disposition proceeds and funds flow from operations exceeding capital expenditures. The Company plans to repay the remaining $145.0 million of debt on the non-revolving syndicated facility due May 29, 2016 through further strategic or financial means, which may include additional asset dispositions and alternative debt refinancing.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

($000s)	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Source (use) of cash:				
Accounts receivable	**3,797**	(5,261)	**17,317**	(17,579)
Deposits and prepaid expenses	**(11,308)**	(6,038)	**(11,014)**	(4,228)
Accounts payable and accrued liabilities	**(39,050)**	(13,923)	**(56,881)**	17,790
	(46,561)	(25,222)	**(50,578)**	(4,017)
Related to:				
Operating activities	**(7,975)**	(5,452)	**3,516**	(14,375)
Investing activities	**(35,886)**	(20,790)	**(44,622)**	5,122
Financing activities	**(2,700)**	1,020	**(9,472)**	5,236
	(46,561)	(25,222)	**(50,578)**	(4,017)

15. COMMITMENTS AND CONTINGENCIES

Commitments

($000s)	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	2,253	4,329	6,041	7,753	7,482	50,604	78,462
Processing	2,113	6,024	6,024	6,024	6,024	31,941	58,150
Transportation	5,827	14,723	13,242	9,562	4,610	9,495	57,459
Fractionation	1,462	2,843	2,653	650	-	-	7,608
Capital	6,504	9,969	7,501	308	-	-	24,282
Total	18,159	37,888	35,461	24,297	18,116	92,040	225,961

At June 30, 2015, the Company is committed under operating leases for office space, contracts related to the processing of natural gas, transportation of oil, natural gas and NGLs, fractionation of natural gas liquids, and capital commitments for drilling rig services.

Litigation

The Company is involved in various claims and legal actions arising in the normal course of business. Long Run does not expect that the outcome of these proceedings will have a material adverse effect on the Company.