LONG RUN EXPLORATION LTD.

Financial Statements

September 30, 2015

Statement of Financial Position

($000s)	**September 30, 2015**	December 31, 2014
	(unaudited)	
ASSETS		
CURRENT		
Accounts receivable	**40,109**	65,135
Deposits and prepaid expenses	**16,265**	14,423
Fair value of financial derivatives *(note 14)*	**28,667**	65,438
	85,041	144,996
Exploration and evaluation assets *(note 5)*	**1,091**	5,635
Property and equipment *(note 6)*	**1,212,290**	1,627,050
Deferred income tax asset	**168,790**	162,025
Fair value of financial derivatives *(note 14)*	**1,478**	-
	1,468,690	1,939,706
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**64,524**	132,439
Bank loan *(note 8)*	**245,000**	100,000
Fair value of financial derivatives *(note 14)*	**296**	336
	309,820	232,775
Bank loan *(note 8)*	**350,618**	511,717
Convertible debentures *(note 9)*	**69,215**	68,145
Decommissioning liabilities *(note 7)*	**400,726**	411,209
Fair value of financial derivatives *(note 14)*	**71**	85
	1,130,450	1,223,931
SHAREHOLDERS' EQUITY		
Share capital *(note 10)*	**1,006,799**	1,006,799
Equity component of convertible debentures *(note 9)*	**3,483**	3,483
Contributed surplus *(note 10)*	**30,023**	26,160
Retained earnings (deficit)	**(702,065)**	(320,667)
	338,240	715,775
	1,468,690	1,939,706
Commitments and contingencies *(note 16)*		

See accompanying notes to the financial statements.

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

($000s, except per share amounts) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
INCOME				
Petroleum and natural gas revenue	**72,271**	166,978	**247,031**	477,542
Royalties	**(6,312)**	(19,377)	**(19,033)**	(55,441)
	65,959	147,601	**227,998**	422,101
Gain (loss) on financial derivatives *(note 14)*				
- realized	**20,486**	(4,529)	**62,763**	(22,108)
- unrealized	**(177)**	33,737	**(35,239)**	23,926
	86,268	176,809	**255,522**	423,919
EXPENSES				
Operating	**30,031**	37,238	**107,422**	111,046
Transportation	**3,995**	5,272	**14,200**	16,102
General and administration *(note 12)*	**7,654**	12,537	**21,989**	30,400
Share-based compensation *(note 10)*	**960**	525	**2,733**	1,700
Interest	**10,660**	7,566	**27,159**	17,989
Accretion *(note 7, 9)*	**2,608**	3,025	**7,948**	7,806
Depletion and depreciation *(note 6)*	**54,363**	65,567	**173,050**	165,690
Exploration	**-**	254	**4**	772
(Gain) loss on disposal of assets *(note 6)*	**(4,037)**	(9,750)	**702**	(19,434)
Impairments *(note 6)*	**285,000**	-	**285,000**	-
	391,234	122,234	**640,207**	332,071
EARNINGS (LOSS) BEFORE TAX	**(304,966)**	54,575	**(384,685)**	91,848
Income taxes				
Capital and other taxes	**92**	6	**92**	6
Deferred income tax expense (recovery)	**-**	13,925	**(6,765)**	23,585
	92	13,931	**(6,673)**	23,591
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)	**(305,058)**	40,644	**(378,012)**	68,257
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS) PER SHARE *(note 10)*				
Basic	**(1.58)**	0.23	**(1.95)**	0.47
Diluted	**(1.58)**	0.23	**(1.95)**	0.47

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 10)	*(note 9)*	*(note 10)*		
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 10)*	-	-	-	(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	-	-	3,863	-	3,863
Comprehensive loss	-	-	-	(378,012)	(378,012)
Dividends declared *(note 10)*	-	-	-	(3,386)	(3,386)
September 30, 2015	**1,006,799**	**3,483**	**30,023**	**(702,065)**	**338,240**
January 1, 2014	657,666	-	23,377	(64,066)	616,977
Issuance of common shares	346,320	-	-	-	346,320
Share-based compensation	-	-	2,649	-	2,649
Options exercised	2,816	-	(657)	-	2,159
Comprehensive earnings	-	-	-	68,257	68,257
Dividends declared *(note 10)*	-	-	-	(45,888)	(45,888)
Convertible debentures issued	-	3,483	-	-	3,483
September 30, 2014	1,006,802	3,483	25,369	(41,697)	993,957

See accompanying notes to the financial statements.

Statement of Cash Flows

($000s) (unaudited)	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings (loss)	**(305,058)**	40,644	**(378,012)**	68,257
Items not requiring cash:				
Unrealized loss (gain) on financial derivatives *(note 14)*	**177**	(33,737)	**35,239**	(23,926)
Share-based compensation *(note 10)*	**960**	525	**2,733**	1,700
Accretion and other *(note 7, 9)*	**4,072**	3,025	**9,412**	7,806
Depletion and depreciation *(note 6)*	**54,363**	65,567	**173,050**	165,690
(Gain) loss on disposal of assets *(note 6)*	**(4,037)**	(9,750)	**702**	(19,434)
Impairments *(note 6)*	**285,000**	-	**285,000**	-
Deferred income tax expense (recovery)	**-**	13,925	**(6,765)**	23,585
Abandonment costs *(note 7)*	**(2,082)**	(3,189)	**(5,063)**	(5,232)
Change in non-cash working capital *(note 15)*	**(5,338)**	996	**(1,822)**	(13,379)
	28,057	78,006	**114,474**	205,067
INVESTING ACTIVITIES				
Capital expenditures *(note 5, 6)*	**(19,367)**	(75,759)	**(73,452)**	(233,938)
Acquisitions *(note 6)*	**(1,277)**	(8,494)	**(2,424)**	(246,866)
Dispositions *(note 6)*	**19,191**	16,641	**31,260**	44,977
Change in non-cash working capital *(note 15)*	**3,125**	(9,764)	**(41,497)**	(4,642)
	1,672	(77,376)	**(86,113)**	(440,469)
FINANCING ACTIVITIES				
Bank loan issuance (repayment)	**(30,325)**	19,040	**(16,099)**	89,987
Issuance of convertible debentures, net of costs *(note 9)*	**-**	-	**-**	71,566
Dividends declared *(note 10)*	**-**	(18,781)	**(3,386)**	(45,888)
Issuance of common shares *(note 10)*	**-**	322	**-**	122,162
Share issue costs *(note 10)*	**-**	(357)	**-**	(6,807)
Change in non-cash working capital *(note 15)*	**596**	1,536	**(8,876)**	6,772
	(29,729)	1,760	**(28,361)**	237,792
CHANGE IN CASH	**-**	2,390	**-**	2,390
CASH, BEGINNING OF PERIOD	**-**	-	**-**	-
CASH, END OF PERIOD	**-**	2,390	**-**	2,390
SUPPLEMENTAL INFORMATION				
Interest paid	**11,211**	9,093	**26,447**	17,193

See accompanying notes to the financial statements.

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 November 16, 2015.

3. CHANGES IN ACCOUNTING POLICIES

Future Accounting Pronouncements

In September 2015, the International Accounting Standards Board issued an amendment to IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), deferring the effective date by one year to annual periods beginning on or after January 1, 2018. IFRS 15 clarifies the principles for recognizing revenue from contracts with customers and provides a model for the recognition and measurement of sales of certain non-financial assets. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

A description of other 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.

4. BUSINESS COMBINATIONS

a) *Acquisition of oil and natural gas properties in the Deep Basin*

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 10). 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

Following the acquisition, property and equipment and the decommissioning liabilities were increased by $32.3 million, reflecting the calculation of decommissioning liabilities using a risk free discount rate. The credit adjusted discount rate was used to determine fair value.

b) *Acquisition of Crocotta Energy Inc.*

On August 6, 2014, the Company acquired all of the issued and outstanding common shares of Crocotta Energy Inc. (“Crocotta”) pursuant to a plan of arrangement (the “Arrangement”) under the Business Corporations Act (Alberta). Under the Arrangement, Crocotta shareholders received a combination of Common Shares of Long Run, as well as common shares and warrants of a newly established Montney-focused exploration company (“ExploreCo”). ExploreCo assets, including assets in northeast British Columbia and northwest Alberta, were excluded from Long Run’s acquisition of Crocotta.

For each Crocotta share held, shareholders of Crocotta received 0.415 of a Common Share of Long Run, one common share of ExploreCo, and 0.2 arrangement warrants of ExploreCo. Long Run issued 43.8 million Common Shares based on the exchange ratio and assumed $115.5 million of net debt, defined as bank debt, net of cash, less working capital. Details of the transaction are as follows:

($000s)	
Oil and gas properties	406,738
Working capital	3,359
Risk management contracts	(750)
Decommissioning liabilities	(13,164)
Bank debt, net of cash	(118,837)
Deferred income tax liabilities	(45,927)
Fair value of net assets	231,419
Share consideration paid (43.8 million shares @ $5.28 per share)	231,419

Following the acquisition, property and equipment and the decommissioning liabilities were increased by $15.8 million, reflecting the calculation of decommissioning liabilities using a risk free discount rate. The credit adjusted discount rate was used to determine fair value.

The purchase price allocation was based on the best estimates of management, giving consideration to cash flows from petroleum and natural gas reserves estimated using independent reserve evaluations. Transaction costs of $4.5 million were included in the statement of earnings as general and administration expense.

5. EXPLORATION AND EVALUATION ASSETS

($000s)	September 30, 2015	December 31, 2014
Balance, beginning of year	**5,635**	10,758
Additions	**157**	27
Transfers to property and equipment	**(1,465)**	(5,150)
Disposals	**(3,236)**	-
Balance, end of period	**1,091**	5,635

6. PROPERTY AND EQUIPMENT

($000s)	September 30, 2015	December 31, 2014
Property and equipment cost	**2,826,398**	2,808,959
Accumulated depletion, depreciation and impairments	**(1,614,108)**	(1,181,909)
Net book value	**1,212,290**	1,627,050

Property and Equipment Cost

($000s)	September 30, 2015	December 31, 2014
Balance, beginning of year	**2,808,959**	1,769,893
Additions	**76,606**	311,488
Acquisitions, including decommissioning costs	**2,424**	753,297
Transfers from exploration and evaluation assets	**1,465**	5,150
Transfers to assets held for sale	**-**	(6,000)
Change in decommissioning liabilities estimate (*note 7*)	**-**	52,022
Disposals	**(63,056)**	(76,891)
Balance, end of period	**2,826,398**	2,808,959

Accumulated Depletion, Depreciation and Impairments

($000s)	September 30, 2015	December 31, 2014
Balance, beginning of year	**(1,181,909)**	(585,542)
Depletion and depreciation expense	**(173,050)**	(234,829)
Disposals	**25,851**	38,462
Impairments	**(285,000)**	(400,000)
Balance, end of period	**(1,614,108)**	(1,181,909)

During the first nine months of 2015, proceeds of $31.3 million were received for the dispositions of minor producing properties and a pipeline (September 30, 2014 - $45.0 million). The dispositions included the sale of a Redwater property for $18.6 million in September and a pipeline sold for $8.1 million in April. 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. During the first nine months of 2015, a loss on the disposal of the minor properties of $0.7 million was recognized (September 30, 2014 - $19.4 million gain).

At September 30, 2015, undeveloped land of $20.7 million was excluded from costs subject to depletion (September 30, 2014 - $46.0 million). Future development costs of $1.2 billion were added into costs subject to depletion (September 30, 2014 - $1.3 billion).

At September 30, 2015, the Company recorded property and equipment impairments totalling $285.0 million, resulting from a decline in oil and natural gas price forecasts (Peace River - $125.0 million; Redwater - $68.0 million; Deep Basin - $64.0 million; and Kaybob - $28.0 million). The recoverable amounts of the Company's CGUs were estimated at fair value less costs to sell, based on the net present value of after-tax cash flows from oil and natural gas reserves, using reserve values estimated by internal reserve evaluators, and the estimated fair value of undeveloped land. Within the fair value hierarchy, these inputs would be considered Level 3.

In calculating the net present values of cash flows from oil and natural gas reserves, the Company used an after-tax discount rate of 10%, a CDN$ to US$ exchange rate of CDN$0.82 to US$1.00, and the following forward commodity price estimates:

	WTI Oil *(US$/bbl)*	AECO Gas *(CDN$/mcf)*
2015	47.00	2.93
2016	53.33	3.29
2017	62.07	3.53
2018	66.67	3.83
2019	71.33	4.10
2020	74.77	4.31
2021	78.24	4.47
2022	81.75	4.65
2023	85.37	4.85
2024	87.90	5.00
2025	89.50	5.10
Remainder	+1.8%/yr	+1.8%/yr

As at September 30, 2015, a one percent change in the after-tax discount rate is estimated to change the impairment by approximately $50.0 million. A $1.00/Bbl change in the price of oil is estimated to change the impairment by approximately $15.0 million. A $0.10/GJ change in the price of natural gas is estimated to change the impairment by approximately $20.0 million.

In 2014, the Company recorded property and equipment impairments of $400.0 million, resulting from a decline in oil and natural gas price forecasts (Deep Basin - $160.0 million; Redwater - $132.0 million; Peace River - $61.0 million; and Kaybob - $47.0 million).

7. DECOMMISSIONING LIABILITIES

($000s)	September 30, 2015	December 31, 2014
Balance, beginning of year	**411,209**	254,413
Accretion expense	**6,878**	9,286
Liabilities acquired	**-**	113,681
Liabilities incurred	**2,181**	6,306
Disposal of liabilities	**(14,479)**	(13,090)
Settlement of liabilities	**(5,063)**	(11,409)
Change in estimates	**-**	52,022
Balance, end of period	**400,726**	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 September 30, 2015, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities was approximately $542.0 million, which will be incurred over the next 40 years (December 31, 2014 - $560.0 million). At September 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.

8. 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 $3.5 million. At September 30, 2015, $595.6 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 semi-annual review of the Company's credit facilities will occur by November 30, 2015.

Security for the credit facilities at September 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 nine months ended September 30, 2015, the effective interest rate, including standby and other fees, was 4.9% (September 30, 2014 – 4.4%).

At September 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 September 30, 2015, the Company had letters of credit outstanding totalling $7.3 million (December 31, 2014 – $4.5 million).

9. 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.

10. 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

	September 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 August 2, 2015, the Company entered into an agreement for a private placement with Maple Marathon Investment Limited (“Maple Marathon”) and MIE Holding Corporation (“MIE”). On November 8, 2015, Long Run entered into an amended and restated agreement, pursuant to which Long Run will issue to Maple Marathon, by way of Private Placement, 125,000,000 units ("Units") at an issue price of $0.80 per Unit for gross proceeds of approximately $100 million. Each Unit will be comprised of one common share of Long Run and 0.728 of a common share purchase warrant (the "Warrants"). Each Warrant will entitle the holder to acquire one common share of Long Run at an exercise price of $1.10 for a period of 12 months from closing of the Private Placement, for additional proceeds of approximately $100 million to Long Run, if exercised in full. The closing of the Private Placement is subject to various conditions including obtaining shareholder and regulatory approvals.

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 nine months ended September 30, 2015, $3.4 million in dividends had been declared and paid (September 30, 2014 - $45.9 million in dividends declared, of which $39.1 million had been paid).

Contributed Surplus

($000s)	**September 30, 2015**	December 31, 2014
Balance, beginning of year	**26,160**	23,377
Share-based compensation cost	**3,863**	3,440
Transfer to share capital on exercise of options	**-**	(657)
Balance, end of period	**30,023**	26,160

Share Option Plan

	September 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	**(907)**	**4.49**	(904)	4.52
Exercised	**-**	**-**	(483)	4.47
Outstanding, end of period	**7,972**	**4.50**	8,879	4.50

Notes to the Financial Statements (unaudited)
For the three and nine months ended September 30, 2015

At September 30, 2015, option exercise prices ranged from $4.03 to $5.30 per option for the 8.0 million options outstanding. The weighted average exercise price was $4.50 per option and the weighted average remaining life of the options was 2.3 years. At September 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 nine months ended September 30, 2015, $0.8 million was recognized as share-based compensation (September 30, 2014 - $2.6 million), of which $0.6 million was expensed (September 30, 2014 - $1.7 million).

Restricted and Performance Award Incentive Plan

Number of Restricted Awards (000s)	**September 30, 2015**	December 31, 2014
Outstanding, beginning of year	**-**	-
Granted	**5,196**	-
Forfeited	**(432)**	-
Outstanding, end of period	**4,764**	-

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 September 30, 2015, there were 4.8 million restricted share awards outstanding with a weighted average remaining life of 2.3 years. At September 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 September 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 September 30, 2015 had an average fair value of $1.45 per award.

For the nine months ended September 30, 2015, $3.1 million was recognized as share-based compensation (September 30, 2014 - nil), of which $2.1 million was expensed (September 30, 2014 - nil).

The closing of the Private Placement will cause the payment dates applicable to outstanding incentive awards to be accelerated such that the value attaching to outstanding awards will be settled upon closing of the Private Placement.

Earnings (Loss) Per Share

	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Net earnings (loss) *($000s)*	**(305,058)**	40,644	**(378,012)**	68,257
Weighted average number of shares *(000s)*				
Shares outstanding, beginning of period	**193,498**	149,596	**193,498**	125,656
Share options exercised	**-**	43	**-**	298
Equity issuance of Common Shares	**-**	26,679	**-**	19,678
Weighted average shares outstanding - basic	**193,498**	176,318	**193,498**	145,632
Weighted average shares outstanding - diluted	**193,498**	177,003	**193,498**	146,511
Basic earnings (loss) per share	**(1.58)**	0.23	**(1.95)**	0.47
Diluted earnings (loss) per share	**(1.58)**	0.23	**(1.95)**	0.47

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 nine months ended September 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 (September 30, 2014 – 0.4 million options).

11. CAPITAL RISK MANAGEMENT

The Company's primary capital management objective is to strengthen our financial position and improve 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 September 30, 2015 was calculated based on third quarter funds flow annualized. The resulting net debt to funds flow from operations of 4.8 times reflects the lower commodity prices experienced in the third quarter. At September 30, 2015, the Company had a debt to debt plus equity ratio of 0.66 times. The Company’s plan to repay its non-revolving syndicated facility through the Private Placement proceeds (Note 10), asset dispositions and excess funds flow from operations over net capital expenditures is expected to improve Long Run’s target metrics.

Notes to the Financial Statements (unaudited)
For the three and nine months ended September 30, 2015

Net Debt to Funds Flow from Operations

($000s, except ratios)	**September 30, 2015**	December 31, 2014
Net Debt		
Bank loan	**595,618**	611,717
Accounts payable and accrued liabilities	**64,524**	132,439
Accounts receivable	**(40,109)**	(65,135)
Deposits and prepaid expenses	**(16,265)**	(14,423)
Convertible debentures - face value	**75,000**	75,000
Net Debt	**678,768**	739,598
Funds Flow from Operations - Quarter Ended		
Petroleum and natural gas revenue	**72,271**	133,354
Royalties	**(6,312)**	(14,835)
Gain on financial derivatives - realized	**20,486**	14,145
Operating expense	**(30,031)**	(42,684)
Transportation expense	**(3,995)**	(5,891)
General and administration	**(7,654)**	(7,793)
Interest	**(9,196)**	(8,038)
Exploration expense	**-**	(86)
Capital and other taxes	**(92)**	6
Funds Flow from Operations - Quarter Ended	**35,477**	68,178
Funds Flow from Operations - Annualized *(Quarterly x 4)*	**141,908**	272,712
Net Debt to Funds Flow from Operations *(target <= 1.5)*	**4.8**	2.7

Debt to Debt plus Equity

($000s, except ratios)	**September 30, 2015**	December 31, 2014
Debt		
Bank loan	**595,618**	611,717
Convertible debentures - face value	**75,000**	75,000
Debt	**670,618**	686,717
Debt plus Equity		
Debt	**670,618**	686,717
Shareholders' equity	**338,240**	715,775
Debt plus Equity	**1,008,858**	1,402,492
Debt to Debt plus Equity *(target <= 0.4)*	**0.66**	0.49

12. GENERAL AND ADMINISTRATION EXPENSE

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	2014	**2015**	2014
Salary and employee	**6,561**	8,514	**21,345**	28,168
Other	**5,434**	9,294	**14,027**	18,407
Gross expenses	**11,995**	17,808	**35,372**	46,575
Capitalized costs	**(2,803)**	(3,969)	**(8,665)**	(12,608)
Operating recoveries	**(1,538)**	(1,302)	**(4,718)**	(3,567)
General and administration	**7,654**	12,537	**21,989**	30,400

During the nine months ended September 30, 2015, general and administration expense included $1.3 million of transaction costs primarily related to the Private Placement with Maple Marathon (see Note 10). During the nine months ended September 30, 2014, general and administration expense included $6.8 million of transaction costs primarily related to the Deep Basin and Crocotta acquisitions.

13. 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 nine months ended September 30, 2015, general and administrative expense included amounts totalling $0.9 million charged to the Company by BDP (September 30, 2014 - $1.4 million). As at September 30, 2015, a payable of $0.5 million was owing to BDP (December 31, 2014 - $0.1 million).

14. 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 September 30, 2015, the fair value of the convertible debentures was $24.8 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 September 30, 2015:

	Volume	Pricing
Crude Oil		
Costless Collars		
October 1, 2015 – December 31, 2015	2,500 Bbl/d	WTI US $95.00 - $97.50/Bbl
Fixed Price		
October 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		
October 1, 2015 – December 31, 2015	500 Bbl/d	WTI US $85.00/Bbl
Natural Gas		
Costless Collars		
October 1, 2015 – December 31, 2015	20,000 GJ/d	$3.50 - $4.00/GJ
October 1, 2015 – December 31, 2015	11,000 GJ/d	$3.50 - $4.35/GJ
October 1, 2015 – December 31, 2015	5,000 GJ/d	$4.00 - $4.51/GJ
October 1, 2015 – December 31, 2015	5,000 GJ/d	$4.00 - $4.50/GJ
Fixed Price		
October 1, 2015 – December 31, 2015	20,000 GJ/d	$2.80/GJ
October 1, 2015 – December 31, 2015	5,000 GJ/d	$2.72/GJ
January 1, 2016 – December 31, 2016	30,000 GJ/d	$3.00/GJ
January 1, 2016 – December 31, 2016	10,000 GJ/d	$3.05/GJ
January 1, 2016 – December 31, 2016	5,000 GJ/d	$2.98/GJ
Electricity		
October 1, 2015 – December 31, 2016	3.0 MW/h	$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)	September 30, 2015	December 31, 2014
Assets - Fair value of financial derivatives		
Current	**28,667**	65,438
Long-term	**1,478**	-
	30,145	65,438
Liabilities - Fair value of financial derivatives		
Current	**296**	336
Long-term	**71**	85
	367	421
Net Asset	**29,778**	65,017

Of the total September 30, 2015 financial liability, $0.1 million relates to 2015 and $0.3 million relates to 2016.

($000s)	Crude Oil	Natural Gas	Other	Total
Nine months ended September 30, 2015				
Realized (gain) loss on financial derivatives	(50,442)	(12,557)	236	(62,763)
New contracts	188	3,117	-	3,305
Change in value	21,684	2,883	(348)	24,219
Unrealized gain (loss) on financial derivatives	(28,570)	(6,557)	(112)	(35,239)
December 31, 2014 - Net Asset (Liability)	49,844	15,427	(254)	65,017
September 30, 2015 - Net Asset (Liability)	**21,274**	**8,870**	**(366)**	**29,778**
Nine months ended September 30, 2014				
Realized loss on financial derivatives	16,699	5,306	103	22,108
New contracts	(358)	(3,066)	-	(3,424)
Change in value	7,441	(2,313)	114	5,242
Unrealized gain (loss) on financial derivatives	23,782	(73)	217	23,926
Business combination	(398)	(352)	-	(750)
December 31, 2013 - Net Liability	(17,103)	(450)	(218)	(17,771)
September 30, 2014 - Net Asset (Liability)	6,281	(875)	(1)	5,405

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 September 30, 2015, it is estimated that a $1.00/Bbl change in the price of oil would change the unrealized loss by approximately $0.8 million. A $0.10/GJ change in the price of natural gas would change the unrealized loss by approximately $2.3 million. Based on the bank debt outstanding as at September 30, 2015, a one percent change in the interest rate would impact interest expense for a nine month period by approximately $4.5 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 nine months ended September 30, 2015, three third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue. At September 30, 2015, approximately 31% of the accounts receivable balance is due from three customers.

Accounts Receivable *($000s)*	**September 30, 2015**	December 31, 2014
Less than 90 days	**34,981**	58,019
Greater than 90 days	**5,128**	7,116
Total	**40,109**	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.

At September 30, 2015, $595.6 million was drawn against the Company's credit facilities, with $92.1 million of borrowing capacity available. On May 29, 2016, the Company's non-revolving syndicated facility of $245.0 million is due. The Company currently plans to repay the non-revolving syndicated facility through asset dispositions, funds flow from operations exceeding capital expenditures and proceeds from the proposed Private Placement (see Note 10). The Company's ability to continue as a going concern and discharge its obligations will require additional equity or debt financing and/or proceeds from asset sales. Management is actively pursuing sources of financing, including the proposed Private Placement, and has initiated a formal asset disposition process. Though management has been successful in securing sufficient financing in the past, there can be no assurance that it will be able to do so in the future.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	2014	**2015**	2014
Source (use) of cash:				
Accounts receivable	**7,709**	(7,067)	**25,026**	(24,646)
Deposits and prepaid expenses	**1,708**	(1,614)	**(9,306)**	(5,842)
Accounts payable and accrued liabilities	**(11,034)**	(1,910)	**(67,915)**	15,880
Business combination	**-**	3,359	**-**	3,359
	(1,617)	(7,232)	**(52,195)**	(11,249)
Related to:				
Operating activities	**(5,338)**	996	**(1,822)**	(13,379)
Investing activities	**3,125**	(9,764)	**(41,497)**	(4,642)
Financing activities	**596**	1,536	**(8,876)**	6,772
	(1,617)	(7,232)	**(52,195)**	(11,249)

16. COMMITMENTS AND CONTINGENCIES

Commitments

($000s)	2015	2016	2017	2018	2019	Thereafter	Total
Operating leases	1,166	4,329	6,041	7,753	7,482	50,604	77,375
Processing	1,059	6,024	6,024	6,024	6,024	31,941	57,096
Transportation	3,155	15,414	14,031	9,967	4,712	9,493	56,772
Fractionation	731	2,843	2,653	650	-	-	6,877
Capital	4,559	8,837	6,168	253	-	-	19,817
Total	10,670	37,447	34,917	24,647	18,218	92,038	217,937

At September 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.