LONG RUN EXPLORATION LTD.

Financial Statements

June 30, 2013

Statement of Financial Position

($000s)	June 30, 2013	December 31, 2012
	(unaudited)	
ASSETS		
CURRENT		
Cash	-	3,803
Accounts receivable *(note 12)*	54,705	48,912
Deposits and prepaid expenses	10,152	7,156
Fair value of financial derivatives *(note 12)*	5,867	15,318
	70,724	75,189
Exploration and evaluation assets *(note 4)*	24,784	20,936
Property and equipment *(note 5)*	1,046,829	939,713
Deferred income tax asset	149,248	157,292
Fair value of financial derivatives *(note 12)*	2,378	142
	1,293,963	1,193,272
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	80,802	91,821
Bank loan *(note 7)*	-	261,173
Fair value of financial derivatives *(note 12)*	8,447	9,341
	89,249	362,335
Bank loan *(note 7)*	327,603	-
Decommissioning liabilities *(note 6)*	260,202	233,100
Fair value of financial derivatives *(note 12)*	7,676	12,155
	684,730	607,590
SHAREHOLDERS' EQUITY		
Share capital *(note 8)*	657,455	657,455
Contributed surplus *(note 8)*	19,837	16,558
Retained earnings (deficit)	(68,059)	(88,331)
	609,233	585,682
	1,293,963	1,193,272

Commitments and contingencies *(note 11)*

See accompanying notes to financial statements.

Statement of Earnings and Comprehensive Income

($000s, except share and per share amounts) (unaudited)	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
INCOME				
Petroleum and natural gas revenue	**117,210**	64,025	**220,823**	117,511
Royalties	**(9,753)**	(5,814)	**(21,543)**	(10,693)
	107,457	58,211	**199,280**	106,818
Gain (loss) on financial derivatives				
- realized *(note 12)*	**1,285**	682	**2,041**	(533)
- unrealized *(note 12)*	**8,918**	25,489	**(1,842)**	20,247
	117,660	84,382	**199,479**	126,532
EXPENSES				
Operating	**31,083**	16,128	**59,825**	28,895
Transportation	**5,250**	2,037	**9,733**	3,453
General and administration *(note 9)*	**5,493**	4,482	**12,954**	7,681
Share-based compensation *(note 8)*	**1,103**	1,020	**2,091**	1,930
Interest *(note 7)*	**3,634**	2,161	**6,857**	3,297
Accretion *(note 6)*	**1,575**	381	**3,033**	711
Depletion and depreciation *(note 5)*	**40,265**	29,467	**77,724**	51,083
Exploration expenses	**36**	-	**36**	-
Loss (gain) on disposal of assets *(note 5)*	**418**	(11,373)	**(1,135)**	(11,373)
Impairments *(note 5)*	**-**	16,116	**-**	16,116
	88,857	60,419	**171,118**	101,793
EARNINGS BEFORE TAX	**28,803**	23,963	**28,361**	24,739
Income Taxes				
Capital and other taxes	**19**	82	**45**	187
Deferred income tax expense	**7,685**	6,375	**8,044**	5,867
	7,704	6,457	**8,089**	6,054
NET EARNINGS AND COMPREHENSIVE EARNINGS	**21,099**	17,506	**20,272**	18,685
NET EARNINGS AND COMPREHENSIVE EARNINGS PER SHARE *(note 8)*				
Basic	**0.17**	0.21	**0.16**	0.23
Diluted	**0.17**	0.21	**0.16**	0.22

See accompanying notes to financial statements.

Statement of Changes in Shareholders' Equity

($000s) (unaudited)	**Share Capital**	**Contributed Surplus**	**Retained Earnings (Deficit)**	**Total**
	(note 8)	*(note 8)*		
January 1, 2012	485,727	10,446	(45,679)	450,494
Shares issued upon Guide Arrangement *(note 1)*	171,130	-	-	171,130
Share-based compensation	-	6,433	-	6,433
Options exercised	598	(321)	-	277
Comprehensive loss	-	-	(42,652)	(42,652)
December 31, 2012	657,455	16,558	(88,331)	585,682
Share-based compensation	-	3,279	-	3,279
Comprehensive earnings	-	-	20,272	20,272
June 30, 2013	**657,455**	**19,837**	**(68,059)**	**609,233**
January 1, 2012	485,727	10,446	(45,679)	450,494
Share-based compensation	-	2,527	-	2,527
Comprehensive earnings	-	-	18,685	18,685
June 30, 2012	485,727	12,973	(26,994)	471,706

See accompanying notes to financial statements.

Statement of Cash Flows

($000s) (unaudited)	Three months ended June 30 2013	Three months ended June 30 2012	Six months ended June 30 2013	Six months ended June 30 2012
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	**21,099**	17,506	**20,272**	18,685
Items not requiring cash:				
Unrealized (gain) loss on financial derivatives *(note 12)*	**(8,918)**	(25,489)	**1,842**	(20,247)
Share-based compensation	**1,103**	1,020	**2,091**	1,930
Deferred compensation	**-**	382	**-**	994
Accretion	**1,575**	381	**3,033**	711
Depletion and depreciation	**40,265**	29,467	**77,724**	51,083
Loss (gain) on disposal of assets	**418**	(11,373)	**(1,135)**	(11,373)
Impairments	**-**	16,116	**-**	16,116
Deferred income tax expense	**7,685**	6,375	**8,044**	5,867
Abandonment costs *(note 6)*	**(434)**	-	**(1,396)**	-
Change in non-cash working capital *(note 14)*	**(1,958)**	(6,444)	**(3,907)**	(2,472)
	60,835	27,941	**106,568**	61,294
INVESTING ACTIVITIES				
Capital expenditures *(notes 4 & 5)*	**(38,878)**	(44,615)	**(141,797)**	(108,789)
Acquisitions *(note 5)*	**(990)**	(466)	**(24,956)**	(5,718)
Dispositions	**(168)**	-	**5,853**	-
Change in non-cash working capital *(note 14)*	**(36,900)**	(13,824)	**(15,901)**	(4,437)
	(76,936)	(58,905)	**(176,801)**	(118,944)
FINANCING ACTIVITIES				
Bank loan	**16,101**	27,000	**66,430**	51,000
CHANGE IN CASH	**-**	(3,964)	**(3,803)**	(6,650)
CASH, BEGINNING OF PERIOD	**-**	4,895	**3,803**	7,581
CASH, END OF PERIOD	**-**	931	**-**	931
SUPPLEMENTAL INFORMATION				
Cash interest paid	**4,219**	2,162	**7,439**	3,316
Cash taxes paid	**27**	82	**96**	187

See accompanying notes to financial statements.

Notes to the Financial Statements *(unaudited)*

1. REPORTING ENTITY

Long Run Exploration Ltd. ("Long Run" or the "Corporation"), formerly WestFire Energy Ltd. ("WestFire"), is incorporated under the *Business Corporations Act* (Alberta). On October 23, 2012, the Corporation completed a plan of arrangement, the "Guide Arrangement", with Guide Exploration Ltd. ("Guide").

The business of the Corporation is the development of, exploration for and acquisition of, petroleum and natural gas properties in western Canada.

The principal address of the Corporation is located at 400, 250 Second Street SW, Calgary, Alberta, T2P 0C1. Long Run's outstanding common shares are listed on the Toronto Stock Exchange under the symbol "LRE".

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, 2012.

The interim financial statements follow the same accounting policies as the annual audited financial statements for the year ended December 31, 2012, except for the new accounting policies adopted as described in note 3 below.

The financial statements have been prepared on the historical cost basis except for financial derivative instruments which are measured at fair value. The financial statements are presented in Canadian dollars.

Certain prior year amounts have been reclassified to conform to current year presentation.

The financial statements were authorized for issue by the Board of Directors on July 31, 2013.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2013, the Corporation adopted the following new accounting standards. The adoption of these standards did not have a material impact on the Corporation's financial statements.

- IFRS 13, *Fair Value Measurement,* establishes consistent guidance for fair value measurements and disclosures, when fair value is required or permitted by IFRS. There has been no change to the Corporation's methodology for determining the fair value of its financial assets and liabilities. The Corporation's fair value disclosures have been expanded in note 12.

- IFRS 10, *Consolidated Financial Statements,* replaced the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements.* IFRS 10 provides a single consolidation model that applies to all entities, building on existing principles by identifying the concept of control as the determining factor in whether an entity should be consolidated within the financial statements of the parent company.

- IFRS 11, *Joint Arrangements,* establishes a principles-based approach to accounting for joint arrangements, focusing on the rights and obligations of the arrangement, rather than its legal form. Joint operations, whereby the jointly controlling parties have rights to the assets and obligations for the liabilities of the arrangement, are accounted for using proportionate consolidation. Joint ventures, whereby the jointly controlling parties have rights to the net assets of the arrangement, are accounted for using the equity method. The Corporation currently only has joint operations.

- IFRS 12, *Disclosure of Interests in Other Entities,* contains enhanced disclosure requirements about an entity's interests in subsidiaries, joint arrangements and associates, as well as new disclosure requirements about unconsolidated structured entities.

- IAS 28, *Investments in Associates and Joint Ventures,* was amended as a consequence of the issuance of IFRS 10, IFRS 11 and IFRS 12. The amended IAS 28 sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

4. EXPLORATION AND EVALUATION ASSETS

($000s)	**June 30, 2013**	December 31, 2012
Balance, beginning of year	**20,936**	-
Guide Arrangement	**-**	16,221
Additions	**5,217**	4,715
Transfers to property and equipment	**(1,369)**	-
Balance, end of period	**24,784**	20,936

5. PROPERTY AND EQUIPMENT

($000s)	June 30, 2013	December 31, 2012
Property & equipment cost	**1,530,780**	1,345,940
Accumulated depletion, depreciation & impairments	**(483,951)**	(406,227)
Net book value	**1,046,829**	939,713

Property & Equipment Cost

($000s)	June 30, 2013	December 31, 2012
Balance, beginning of year	**1,345,940**	749,517
Additions	**141,894**	227,212
Acquisitions, including decommissioning costs	**46,295**	14,087
Transfers from exploration and evaluation assets	**1,369**	-
Guide Arrangement	**-**	489,581
Disposals	**(4,718)**	(134,457)
Balance, end of period	**1,530,780**	1,345,940

Accumulated Depletion, Depreciation & Impairments

($000s)	June 30, 2013	December 31, 2012
Balance, beginning of year	**(406,227)**	(163,691)
Depletion and depreciation expense	**(77,724)**	(122,352)
Disposals	**-**	23,932
Impairments	**-**	(144,116)
Balance, end of period	**(483,951)**	(406,227)

During the six months ended June 30, 2013, the Corporation acquired lands and various oil and natural gas properties, including assets in the Cherhill and Peace River areas of Alberta, for cash consideration of $13.9 million and $7.2 million, respectively, including purchase price adjustments.

During 2011, the Corporation entered into a farm-out agreement with an industry partner on lands in the west central area of Saskatchewan. Upon completion of the farm-out commitment during the six months ended June 30, 2012, the Corporation recognized a gain of $11.4 million.

During the year ended December 31, 2012, the Corporation disposed of properties, including the farm-out properties in west central Saskatchewan, for proceeds of $178.2 million, resulting in a net gain on disposal of assets of $75.8 million.

As at June 30, 2013, undeveloped land of $29.0 million (June 30, 2012 - $nil) and estimated residual values of $51.8 million have been excluded from costs subject to depletion (June 30, 2012 - $10.5 million). Future development costs of $520.3 million (June 30, 2012 - $476.7 million) have been added into the cost basis for depletion purposes.

At June 30, 2012, the Corporation recorded a $16.1 million impairment, attributable to two of the Corporation’s natural gas weighted areas, due to declining forward natural gas prices.

At December 31, 2012, an impairment of $128.0 million was recorded, relating to the Kaybob and Redwater assets, resulting primarily from a weakening of the future price forecasts and a reduction of the estimated reserve volumes at Kaybob.

6. DECOMMISSIONING LIABILITIES

($000s)	**June 30, 2013**	December 31, 2012
Balance, beginning of year	**233,100**	42,171
Accretion expense	**3,033**	2,019
Liabilities acquired	**21,339**	169,382
Liabilities incurred	**4,126**	7,814
Disposal of liabilities	**-**	(8,060)
Settlement of liabilities	**(1,396)**	(804)
Change in estimates	**-**	20,578
Balance, end of period	**260,202**	233,100

The Corporation's decommissioning liabilities result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its decommissioning liabilities is approximately $389.0 million, which will be incurred over the next 40 years. At June 30, 2013, the Corporation used a risk free rate of 2.5% and an inflation rate of 2% to calculate the present value of the decommissioning liabilities (December 31, 2012 – 2.5% and 2%, respectively).

7. AVAILABLE CREDIT FACILITIES

The Corporation has credit facilities of $450.0 million, consisting of a $420.0 million revolving syndicated facility and a $30.0 million operating facility. Total borrowings permitted under these facilities cannot exceed the borrowing base, which is determined by the lenders on a semi-annual basis or upon the occurrence of a material adverse effect. On May 3, 2013, the available borrowing base was re-confirmed at $430.0 million and the termination date was extended to May 31, 2016.

In conjunction with the extension of the credit facility to May 2016, the Corporation determined it does not intend to repay the facility in the next 12 months and does not anticipate a reduction to the borrowing base below the level of bank debt currently outstanding. As a result, the bank debt has been classified as long-term on the June 30, 2013 statement of financial position. The next borrowing base review will occur prior to November 30, 2013 and the next annual review will occur prior to May 31, 2014.

Security for the credit facilities includes a demand debenture for $1.0 billion which provides for a first ranking security interest and floating charge over all of the assets and property of the Corporation. At June 30, 2013, an amount of $327.6 million was drawn against the credit facilities (December 31, 2012 - $261.2 million).

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 range from 1.00% per annum to 4.00% per annum, based upon the Corporation's debt to earnings before interest, taxes, and all non-cash items including depletion, depreciation and amortization ("EBITDA") ratio. For the six months ended June 30, 2013, the effective interest rate, including standby and other fees, was 4.5% (June 30, 2012 – 4.3%).

As at June 30, 2013, the Corporation is in compliance with all covenants, obligations and conditions of its credit agreement, which include covenants relating to debt to EBITDA, permitted dispositions, and permitted hedging.

8. SHAREHOLDERS' EQUITY

The Corporation is authorized to issue an unlimited number of Common Shares, Common Non-Voting Shares, Non-Voting Convertible Shares and First Preferred Shares.

Share Capital

($000s)	**June 30, 2013**	December 31, 2012
Common Shares	**551,192**	551,192
Non-Voting Convertible Shares	**106,263**	106,263
	657,455	657,455

Common Shares

	June 30, 2013		December 31, 2012	
(000s)	**Number of shares**	**Amount $**	Number of shares	Amount $
Balance, beginning of year	**110,107**	**551,192**	67,355	378,774
Issued on exercise of stock options	**-**	**-**	81	277
Transfer from contributed surplus on exercise of stock options	**-**	**-**	-	321
Issued for shares of Guide	**-**	**-**	42,570	171,130
Issued on conversion of Non-Voting Convertible Shares	**-**	**-**	101	690
Balance, end of period	**110,107**	**551,192**	110,107	551,192

During the six months ended June 30, 2013, there were no shares issued from the exercise of stock options. During the year ended December 31, 2012, 177,600 stock options were exercised, including cashless exercises, which resulted in the issuance of 81,437 Common Shares.

Non-Voting Convertible Shares

	June 30, 2013		December 31, 2012	
(000s)	**Number of shares**	**Amount $**	Number of shares	Amount $
Balance, beginning of year	**15,513**	**106,263**	15,614	106,953
Cancelled on conversion of Non-Voting Convertible Shares	**-**	**-**	(101)	(690)
Balance, end of period	**15,513**	**106,263**	15,513	106,263

The Corporation can require the holders of the Non-Voting Convertible Shares to convert to Common Shares after June 30, 2014.

Warrants

# of Warrants (000s)	**June 30, 2013**	December 31, 2012
Balance, beginning of year	**2,300**	-
Issued upon Guide Arrangement	**-**	2,300
Balance, end of period	**2,300**	2,300

Each warrant entitles the holder to acquire 0.4167 Common Shares of the Corporation at an exercise price of $3.10 per 0.4167 of a share until September 15, 2014. The warrants are not exercisable until the twenty day volume weighted average trading price of the Common Shares exceeds $12.00 per share.

Contributed Surplus

($000s)	**June 30, 2013**	December 31, 2012
Balance, beginning of year	**16,558**	10,446
Share-based compensation cost	**3,279**	6,433
Transfer to share capital on exercise of options	**-**	(321)
Balance, end of period	**19,837**	16,558

Share Option Plan

	June 30, 2013		December 31, 2012	
	Number of Options	**Weighted Average Exercise Price *($)***	Number of Options	Weighted Average Exercise Price *($)*
Outstanding, beginning of year	**8,042,000**	**4.49**	4,849,135	6.70
Forfeited	**(459,000)**	**4.45**	(86,500)	(7.67)
Exercised	**-**	**-**	(177,600)	(3.75)
Cancelled	**-**	**-**	(4,585,035)	(6.79)
Granted	**1,955,400**	**4.39**	8,042,000	4.49
Outstanding, end of period	**9,538,400**	**4.47**	8,042,000	4.49

The fair value of options granted under the Corporation’s share option plan is determined using a Black-Scholes Option Pricing Model. The following assumptions were made during the six months ended June 30, 2013: risk-free interest rate of 1.0-1.3%; dividend yield of 0%; volatility factor of the market price of the Corporation’s Common Shares of 42-44%; and expected option lives of two to four years. Options granted during the six months ended June 30, 2013 had an average fair value of $1.33 per option.

For the 9.5 million options outstanding at June 30, 2013, the option exercise prices range from $4.03 to $4.53 per option. The weighted average exercise price is $4.47 per option and the weighted average remaining life of the options is 4.0 years. There are no options exercisable at June 30, 2013.

All of the unexercised options outstanding on October 23, 2012 were cancelled in conjunction with the Guide Arrangement.

Earnings Per Share

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Net earnings *($000s)*	**21,099**	17,506	**20,272**	18,685
Weighted average shares outstanding *(000's)*				
- basic	**125,620**	82,969	**125,620**	82,969
- diluted	**125,620**	83,061	**125,620**	83,080
Net earnings per share *($ per share)*				
- basic	**0.17**	0.21	**0.16**	0.23
- diluted	**0.17**	0.21	**0.16**	0.22

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 Corporation at their average market price during the period. For the six months ended June 30, 2013, potential shares from all outstanding options have been excluded from the calculation of the diluted earnings per share.

9. GENERAL AND ADMINISTRATION EXPENSES

	Three months ended June 30		Six months ended June 30	
($000s)	**2013**	2012	**2013**	2012
Salary and employee	**5,110**	4,271	**13,638**	8,008
Other	**3,633**	2,140	**6,920**	3,702
Gross expenses	**8,743**	6,411	**20,558**	11,710
Capitalized costs	**(2,842)**	(1,834)	**(6,785)**	(3,803)
Operating recoveries	**(408)**	(95)	**(819)**	(226)
General and administration	**5,493**	4,482	**12,954**	7,681

10. RELATED PARTY TRANSACTIONS

A director of the Corporation and the corporate secretary are partners of the Corporation's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). For the six months ended June 30, 2013, general and administrative expenses included amounts of $0.2 million (June 30, 2012 - $0.3 million) charged to the Corporation by BDP.

11. COMMITMENTS AND CONTINGENCIES

Commitments

($000s)	**2013**	**2014**	**2015**	**2016**	**2017**	**Thereafter**	**Total**
Operating leases	1,226	2,552	2,524	2,467	1,233	-	10,002
Firm transportation agreements	1,725	2,495	836	434	91	22	5,603
Vehicle leases	46	11	11	5	-	-	73
Capital commitments	4,794	-	-	-	-	-	4,794
Total	7,791	5,058	3,371	2,906	1,324	22	20,472

Litigation

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

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Fair Value of Financial Assets and Liabilities

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

The Corporation’s financial instruments recognized in the statement of financial position consist of accounts receivable, accounts payable, bank loan 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. The fair value of the financial derivatives is recognized on the statement of financial position as described below.

Financial Derivative Contracts

The Corporation 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 rates.

The Corporation has the following commodity financial contracts in place as at June 30, 2013:

Natural Gas	Volume	Pricing
Costless Collars		
July 1, 2013 – December 31, 2013	3,000 GJ/d	CDN $2.80 - $3.40/GJ
July 1, 2013 – December 31, 2013	7,000 GJ/d	CDN $3.15 - $3.60/GJ
January 1, 2014 – December 31, 2014	19,000 GJ/d	CDN $3.50 - $4.02/GJ
Fixed Price		
July 1, 2013 – October 31, 2013	5,000 GJ/d	CDN $4.20/GJ
July 1, 2013 – December 31, 2013	5,000 GJ/d	CDN $3.00/GJ
July 1, 2013 – December 31, 2013	5,000 GJ/d	CDN $3.50/GJ
July 1, 2013 – December 31, 2013	10,000 GJ/d	CDN $3.60/GJ
July 1, 2013 – December 31, 2013	10,000 GJ/d	CDN $4.05/GJ
Call Swaption		
January 1, 2014 – December 31, 2014	10,000 GJ/d	CDN $4.00/GJ

Crude Oil	Volume	Pricing
Costless Collars		
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI CDN $85.00-$94.00/Bbl
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI CDN $85.00-$94.25/Bbl
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI CDN $85.00-$96.00/Bbl
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI CDN $90.00-$102.00/Bbl
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI CDN $98.00-$102.00/Bbl
January 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US $88.00-$92.50/Bbl
January 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US $88.00-$92.60/Bbl
Fixed Price		
July 1, 2013 – December 31, 2013	1,000 Bbl/d	WTI CDN $96.75/Bbl
July 1, 2013 – December 31, 2013	600 Bbl/d	WTI CDN $97.05/Bbl
July 1, 2013 – December 31, 2013	1,600 Bbl/d	WTI CDN $100.30/Bbl
July 1, 2013 – December 31, 2013	500 Bbl/d	WTI US $85.00/Bbl
Calls		
July 1, 2013 – December 31, 2013	200 Bbl/d	WTI US $85.00/Bbl
July 1, 2013 – December 31, 2013	73 Bbl/d	WTI US $100.00/Bbl
January 1, 2014 – December 31, 2014	500 Bbl/d	WTI US $85.00/Bbl
January 1, 2014 – December 31, 2014	500 Bbl/d	WTI US $100.00/Bbl
January 1, 2015 – December 31, 2015	500 Bbl/d	WTI US $85.00/Bbl
Call Swaptions		
January 1, 2014 – August 31, 2014	980 Bbl/d	WTI US $85.00/Bbl
September 1, 2014 – April 30, 2015	1,000 Bbl/d	WTI US $85.00/Bbl
September 1, 2014 – April 30, 2015	1,000 Bbl/d	WTI US $90.00/Bbl

Electricity	Volume	Pricing
July 1, 2013 – December 31, 2014	1.5 MW/h	CDN $67.75 MW/h
July 1, 2013 – December 31, 2014	1.5 MW/h	CDN $54.35 MW/h
January 1, 2015 – December 31, 2016	3.0 MW/h	CDN $49.50 MW/h

Interest Rate Swap

Notional Amount CAD $75 million Term: February 6, 2012 – January 5, 2014
Fixed rate 1.190% - Floating rate is reset against CAD-BA-CDOR monthly

Financial Derivative Contracts Financial Statement Recognition

The Corporation 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 Corporation'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 Corporation for reasonableness, giving consideration to factors such as the commodity forward price strips and historical volatilities.

($000s)	**June 30, 2013**	December 31, 2012
Assets - Fair value of financial derivatives		
Current	**5,867**	15,318
Long-term	**2,378**	142
	8,245	15,460
Liabilities - Fair value of financial derivatives		
Current	**8,447**	9,341
Long-term	**7,676**	12,155
	16,123	21,496
Net Asset (Liability)	**(7,878)**	(6,036)

Of the total June 30, 2013 financial liability, $4.8 million relates to 2013, $7.8 million relates to 2014, and $3.5 million relates to 2015.

($000s)	**Crude Oil**	**Natural Gas**	**Other**	**Total**
Six months ended June 30, 2013				
Realized (gain) loss on financial derivatives	978	(2,572)	(447)	(2,041)
New contracts	(4,210)	2,153	-	(2,057)
Cancelled contracts	5,357	-	-	5,357
Change in value	(2,375)	(1,711)	985	(3,101)
Unrealized gain (loss) on financial derivatives	(250)	(2,130)	538	(1,842)
December 31, 2012 - Net Asset (Liability)	(13,910)	8,234	(360)	(6,036)
June 30, 2013 - Net Asset (Liability)	**(14,160)**	**6,104**	**178**	**(7,878)**

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 Corporation's financial assets, liabilities and expected future cash flows. To partially mitigate exposure to commodity price risk and interest rate risk, the Corporation enters into various financial derivative instruments. The currently outstanding instruments are described above.

When assessing the potential impact of price changes on financial derivative contracts outstanding at June 30, 2013, it is estimated that a $1.00/Bbl change in the price of oil would change the unrealized gain by approximately $3.3 million, while a $0.10/GJ change in the price of natural gas would change the unrealized gain by approximately $0.8 million.

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 Corporation'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 Corporation's production is currently sold through partners under normal industry sale and payment terms.

During the three months ended June 30, 2013, five third party purchasers each marketed more than 10% of the Corporation's petroleum and natural gas revenue. At June 30, 2013, approximately 34% of the accounts receivable balance is due from three customers (December 31, 2012 - 39%).

Accounts Receivable *($000s)*	**June 30, 2013**	December 31, 2012
Less than 90 days	**47,966**	45,248
Greater than 90 days	**6,739**	3,664
Total	**54,705**	48,912

Counterparties to the Corporation'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 Corporation's objective in managing liquidity risk is to maintain sufficient capital in order to meet its liquidity requirements at any point in time. The Corporation believes that it has access to sufficient capital through internally generated cash flows, external equity sources, and to undrawn committed credit facilities to meet current spending forecasts. At June 30, 2013, $327.6 million was drawn against the Corporation's credit facilities, with $102.4 million of borrowing capacity available.

Interest rate risk

The Corporation is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Corporation's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Depending upon the amount of debt employed, the Corporation's strategy may include managing interest rate risk through the use of interest rate swaps.

13. CAPITAL RISK MANAGEMENT

The Corporation's primary capital management objective is to maintain a strong statement of financial position, affording the Corporation financial flexibility to achieve goals of continued growth and access to capital. The basis for the Corporation's capital structure is dependent on the Corporation's expected business growth and changes in the business environment. To manage the capital structure, the Corporation may adjust capital spending, issue new shares, issue new debt or repay existing debt.

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

The Corporation's objective is to maintain net debt to funds flow from operations at or below a ratio of 1.5. While the Corporation may exceed this rate from time to time, efforts are made after a period of variation to bring the measure back in line.

The Corporation's strategy concerning capitalization is to utilize more equity than debt. This is measured by targeting total debt to total debt plus equity at a ratio at or below 0.4.

Net Debt to Funds Flow from Operations

($000s, except ratios)	**June 30, 2013**	December 31, 2012
Net Debt		
Bank loan	**327,603**	261,173
Accounts payable and accrued liabilities	**80,802**	91,821
Cash	**-**	(3,803)
Accounts receivable	**(54,705)**	(48,912)
Deposits and prepaid expenses	**(10,152)**	(7,156)
Net Debt	**343,548**	293,123
Funds Flow from Operations - Quarterly		
Petroleum and natural gas revenue	**117,210**	99,000
Royalties	**(9,753)**	(12,521)
Gain on financial derivatives - realized	**1,285**	7,320
Operating expenses	**(31,083)**	(23,195)
Transportation expenses	**(5,250)**	(4,474)
General and administration, excluding non-cash expenses	**(5,493)**	(23,351)
Exploration expenses	**(36)**	(230)
Interest	**(3,634)**	(3,864)
Capital and other taxes	**(19)**	(278)
Funds Flow from Operations - Quarterly	**63,227**	38,407
Funds Flow from Operations - Annualized *(Quarterly x 4)*	**252,908**	153,628
Net Debt to Funds Flow from Operations *(target <= 1.5)*	**1.4**	1.9

Debt to Debt plus Equity

($000s, except ratios)	**June 30, 2013**	December 31, 2012
Debt		
Bank loan	**327,603**	261,173
Debt plus Equity		
Bank loan	**327,603**	261,173
Share capital	**657,455**	657,455
Retained earnings (deficit)	**(68,059)**	(88,331)
Debt plus Equity	**916,999**	830,297
Debt to Debt plus Equity *(target <= 0.4)*	**0.4**	0.3

14. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

	Three months ended June 30		**Six months ended June 30**	
($000s)	**2013**	2012	**2013**	2012
Source (use) of cash:				
Accounts receivable	**(2,183)**	(2,936)	**(5,793)**	(2,802)
Deposits and prepaid expenses	**(3,556)**	136	**(2,996)**	(209)
Accounts payable and accrued liabilities	**(33,119)**	(17,468)	**(11,019)**	(3,898)
	(38,858)	(20,268)	**(19,808)**	(6,909)
Related to operating activities	**(1,958)**	(6,444)	**(3,907)**	(2,472)
Related to investing activities	**(36,900)**	(13,824)	**(15,901)**	(4,437)
	(38,858)	(20,268)	**(19,808)**	(6,909)