

LONG RUN EXPLORATION LTD.

Financial Statements

June 30, 2014



Statement of Financial Position

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
	<i>(unaudited)</i>	
ASSETS		
CURRENT		
Accounts receivable	71,012	53,433
Deposits and prepaid expenses	11,799	7,571
Fair value of financial derivatives <i>(note 14)</i>	350	1,024
	83,161	62,028
Exploration and evaluation assets <i>(note 5)</i>	8,197	10,758
Property and equipment <i>(note 6)</i>	1,520,716	1,184,351
Deferred income tax asset	137,002	146,207
Fair value of financial derivatives <i>(note 14)</i>	1,605	-
	1,750,681	1,403,344
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	107,396	89,606
Fair value of financial derivatives <i>(note 14)</i>	28,232	14,919
	135,628	104,525
Bank loan <i>(note 8)</i>	494,500	423,553
Convertible debentures <i>(note 9)</i>	67,463	-
Decommissioning liabilities <i>(note 7)</i>	311,972	254,413
Fair value of financial derivatives <i>(note 14)</i>	1,305	3,876
	1,010,868	786,367
SHAREHOLDERS' EQUITY		
Share capital <i>(note 10)</i>	775,230	657,666
Equity component of convertible debentures <i>(note 9)</i>	3,483	-
Contributed surplus <i>(note 10)</i>	24,660	23,377
Retained earnings (deficit)	(63,560)	(64,066)
	739,813	616,977
	1,750,681	1,403,344
Commitments and contingencies <i>(note 16)</i>		
Subsequent event <i>(note 17)</i>		

See accompanying notes to the financial statements.

Statement of Earnings and Comprehensive Income

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
<i>(\$000s, except share and per share amounts) (unaudited)</i>				
INCOME				
Petroleum and natural gas revenue	158,678	117,210	310,564	220,823
Royalties	(17,598)	(9,753)	(36,064)	(21,543)
	141,080	107,457	274,500	199,280
Gain (loss) on financial derivatives				
- realized (note 14)	(10,157)	1,285	(17,579)	2,041
- unrealized (note 14)	972	8,918	(9,811)	(1,842)
	131,895	117,660	247,110	199,479
EXPENSES				
Operating	37,614	31,083	73,808	59,825
Transportation	5,287	5,250	10,830	9,733
General and administration (note 12)	9,134	5,493	17,863	12,954
Share-based compensation (note 10)	593	1,103	1,175	2,091
Interest	5,507	3,634	10,423	6,857
Accretion (note 7, 9)	2,659	1,575	4,781	3,033
Depletion and depreciation (note 6)	50,460	40,265	100,123	77,724
Exploration	(48)	36	518	36
(Gain) loss on disposal of assets (note 6)	(7,356)	418	(9,684)	(1,135)
	103,850	88,857	209,837	171,118
EARNINGS BEFORE TAX	28,045	28,803	37,273	28,361
Income Taxes				
Capital and other taxes	-	19	-	45
Deferred income tax expense	7,203	7,685	9,660	8,044
	7,203	7,704	9,660	8,089
NET EARNINGS AND COMPREHENSIVE INCOME	20,842	21,099	27,613	20,272
NET EARNINGS AND COMPREHENSIVE INCOME PER SHARE (note 10)				
Basic	0.16	0.17	0.21	0.16
Diluted	0.15	0.17	0.21	0.16

See accompanying notes to the financial statements.

Statement of Changes in Shareholders' Equity

<i>(\$000s) (unaudited)</i>	Share Capital <i>(note 10)</i>	Equity Component of Convertible Debentures <i>(note 9)</i>	Contributed Surplus <i>(note 10)</i>	Retained Earnings (Deficit)	Total
January 1, 2013	657,455	-	16,558	(88,331)	585,682
Share-based compensation	-	-	6,868	-	6,868
Options exercised	211	-	(49)	-	162
Comprehensive earnings	-	-	-	24,265	24,265
December 31, 2013	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 <i>(note 10)</i>	-	-	-	(27,107)	(27,107)
Convertible debentures issued	-	3,483	-	-	3,483
June 30, 2014	775,230	3,483	24,660	(63,560)	739,813
January 1, 2013	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

See accompanying notes to the financial statements.

Statement of Cash Flows

(\$000s) (unaudited)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	20,842	21,099	27,613	20,272
Items not requiring cash:				
Unrealized (gain) loss on financial derivatives (note 14)	(972)	(8,918)	9,811	1,842
Share-based compensation	593	1,103	1,175	2,091
Accretion	2,659	1,575	4,781	3,033
Depletion and depreciation	50,460	40,265	100,123	77,724
(Gain) loss on disposal of assets	(7,356)	418	(9,684)	(1,135)
Deferred income tax expense	7,203	7,685	9,660	8,044
Abandonment costs (note 7)	(697)	(434)	(2,043)	(1,396)
Change in non-cash working capital (note 15)	(5,452)	(1,958)	(14,375)	(3,907)
	67,280	60,835	127,061	106,568
INVESTING ACTIVITIES				
Capital expenditures (note 6)	(57,330)	(38,878)	(158,179)	(141,797)
Acquisitions (note 4, 6)	(233,610)	(990)	(238,372)	(24,956)
Dispositions (note 6)	19,894	(168)	28,336	5,853
Change in non-cash working capital (note 15)	(20,790)	(36,900)	5,122	(15,901)
	(291,836)	(76,936)	(363,093)	(176,801)
FINANCING ACTIVITIES				
Bank loan issuance	123,559	16,101	70,947	66,430
Issuance of convertible debentures, net of costs (note 9)	(7)	-	71,566	-
Dividends declared (note 10)	(14,468)	-	(27,107)	-
Issuance of common shares (note 10)	120,902	-	121,840	-
Share issue costs (note 10)	(6,450)	-	(6,450)	-
Change in non-cash working capital (note 15)	1,020	-	5,236	-
	224,556	16,101	236,032	66,430
CHANGE IN CASH	-	-	-	(3,803)
CASH, BEGINNING OF PERIOD	-	-	-	3,803
CASH, END OF PERIOD	-	-	-	-
SUPPLEMENTAL INFORMATION				
Interest paid	4,226	4,219	8,100	7,439
Saskatchewan capital taxes paid	-	27	-	96

See accompanying notes to financial statements.

Notes to the Financial Statements (unaudited) For the six months ended June 30, 2014

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, 2013.

The interim financial statements follow the same accounting policies as the annual audited financial statements for the year ended December 31, 2013, 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 where noted in the accounting policies. 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 August 7, 2014.

3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2014, the Company adopted the following:

- Amendment to IAS 36, *Impairment of Assets*, which results in additional disclosures required if impairments are recognized. The adoption of this amendment did not have a material impact on the Company's financial statements.
- IFRIC 21, *Levies*, which clarifies when the liability for a levy should be recognized. The adoption of this IFRIC did not have an impact on the Company's financial statements.

Future Accounting Pronouncements

- IFRS 11, *Joint Arrangements*, was amended regarding the accounting for the acquisition of an interest in a joint operation that constitutes a business. The amendment must be adopted January 1, 2016. The Company has not yet determined the impact of the amendment on the financial statements.

Notes to the Financial Statements (unaudited)

For the six months ended June 30, 2014

- IFRS 15, *Revenue from Contracts with Customers*, 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 IFRS must be adopted January 1, 2017. The Company has not yet determined the impact of the IFRS on the financial statements.

4. BUSINESS COMBINATION

Acquisition of oil and natural gas properties in the Deep Basin

On May 30, 2014, the Company closed the acquisition of certain natural gas assets in the Deep Basin area of Alberta focused on development of the Cadium. Details of the transaction are as follows:

<i>(\$000s)</i>	
Property and equipment	258,079
Decommissioning liabilities	(29,312)
Fair value of net assets	228,767
<hr/>	
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.

The financial statements incorporate the operations of the acquired properties commencing May 30, 2014. During the period May 30, 2014 to June 30, 2014, the Company recorded revenues of \$8.1 million and net earnings of \$2.1 million in respect of these assets.

Had the transaction closed on January 1, 2014, management estimates that for the period January 1, 2014 to May 29, 2014, revenue and net earnings would have increased by an additional \$40.8 million and \$11.2 million, respectively. In determining these amounts, management assumed the fair values on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2014.

5. EXPLORATION AND EVALUATION ASSETS

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Balance, beginning of year	10,758	20,936
Additions	14	5,176
Transfers to property and equipment	(2,575)	(15,354)
Balance, end of period	8,197	10,758

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

6. PROPERTY AND EQUIPMENT

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Property & equipment cost	2,170,066	1,769,893
Accumulated depletion, depreciation & impairments	(649,350)	(585,542)
Net book value	1,520,716	1,184,351

Property & Equipment Cost

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Balance, beginning of year	1,769,893	1,345,940
Additions	162,960	258,561
Acquisitions, including decommissioning costs	300,200	169,023
Transfers from exploration and evaluation assets	2,575	15,354
Disposals	(65,562)	(18,985)
Balance, end of period	2,170,066	1,769,893

Accumulated Depletion, Depreciation & Impairments

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Balance, beginning of year	(585,542)	(406,227)
Depletion and depreciation expense	(100,123)	(170,696)
Disposals	36,315	4,381
Impairments	-	(13,000)
Balance, end of period	(649,350)	(585,542)

During the first six months of 2014, the Company acquired lands and oil and natural gas properties for cash consideration of \$238.4 million, of which \$228.8 million was incurred for the acquisition of assets in the Deep Basin area as described in Note 4 (June 30, 2013 - \$25.0 million).

Proceeds of \$28.3 million were received for the disposition of minor producing properties during the first six months of 2014, including the sale of the heavy oil Lloydminster property for gross proceeds of \$12 million (June 30, 2013 - \$5.9 million). A gain on disposal of properties of \$9.7 million was recognized (June 30, 2013 - \$1.1 million).

As at June 30, 2014, undeveloped land of \$28.4 million was excluded from costs subject to depletion (June 30, 2013 - \$29.0 million). In addition, future development costs of \$1.0 billion were added into costs subject to depletion (June 30, 2013 - \$520.3 million).

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

7. DECOMMISSIONING LIABILITIES

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Balance, beginning of year	254,413	233,100
Accretion expense	4,241	6,110
Liabilities acquired	61,828	43,056
Liabilities incurred	4,128	8,442
Disposal of liabilities	(10,595)	(8,560)
Settlement of liabilities	(2,043)	(3,970)
Change in estimates	-	(23,765)
Balance, end of period	311,972	254,413

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, 2014, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities was approximately \$504.0 million, which will be incurred over the next 40 years (December 31, 2013 - \$404.0 million). At June 30, 2014, the Company used a risk free rate of 3.0% and an inflation rate of 2.0% to calculate the present value of the decommissioning liabilities (December 31, 2013 - 3.0% and 2.0%, respectively).

8. AVAILABLE CREDIT FACILITIES

At June 30, 2014, the Company had credit facilities of \$575 million, consisting of a \$545 million revolving syndicated facility and a \$30 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 event. On May 30, 2014, the available borrowing base was increased from \$475 million to \$575 million and the termination date was extended to May 31, 2017. At June 30, 2014, an amount of \$494.5 million was drawn against the credit facilities (December 31, 2013 - \$423.6 million).

On August 6, 2014, the credit facilities borrowing base was increased from \$575 million to \$695 million in conjunction with the acquisition of Crocotta Energy Inc. as described in Note 17. The next borrowing base review will occur prior to November 30, 2014 and the next annual review will occur prior to May 31, 2015.

Security for the credit facilities at June 30, 2014 included 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 Company. On August 6, 2014, the demand debenture was increased to \$1.5 billion.

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 3.50% per annum, based upon the Company's debt to earnings before interest, taxes, exploration expenses, and all non-cash items including depletion, depreciation and amortization ("EBITDA") ratio. For the six months ended June 30, 2014, the effective interest rate, including standby and other fees, was 4.4% (June 30, 2013 - 4.5%).

As at June 30, 2014, the Company is in compliance with all covenants, obligations and conditions of its credit agreement. The covenants in the facilities relate to debt to EBITDA, interest coverage, permitted dispositions and permitted hedging.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

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 29, 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.

The fair value of the debt portion of the debentures was calculated using a similar instrument without a conversion feature. The residual between the face value of the debentures and the fair value of the liability was classified as equity. The book value of the liability will be accreted to the face value of \$75.0 million over the term of the debentures, using the effective rate interest method.

Below is a summary of the debt and equity balances:

<i>(\$000s)</i>	Convertible Debentures Liability	Equity Component of Convertible Debentures	Total
Balance, January 1, 2014	-	-	-
Issued	70,137	4,863	75,000
Issuance costs	(3,214)	(220)	(3,434)
Deferred income taxes	-	(1,160)	(1,160)
Accretion expense	540	-	540
Balance, June 30, 2014	67,463	3,483	70,946

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.

Share Capital

<i>(\$000s)</i>	June 30, 2014	December 31, 2013
Common Shares	775,230	551,403
Non-Voting Convertible Shares	-	106,263
	775,230	657,666

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

Common Shares

(000s)	June 30, 2014		December 31, 2013	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	110,143	551,403	110,107	551,192
Issuance of common shares	23,530	120,003	-	-
Issued on conversion of Non-Voting Convertible Shares	15,513	106,263	-	-
Issued on exercise of stock options	410	1,837	36	162
Share issue costs, net of deferred tax of \$1.6 million	-	(4,835)	-	-
Transfer from contributed surplus on exercise of stock options	-	559	-	49
Balance, end of period	149,596	775,230	110,143	551,403

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 the Deep Basin properties, holders of the Subscription Receipts received one Common Share of the Company for each Subscription Receipt held. Proceeds were used to pay for a portion of the Deep Basin acquisition costs.

Non-Voting Convertible Shares

(000s)	June 30, 2014		December 31, 2013	
	Number of shares	Amount \$	Number of shares	Amount \$
Balance, beginning of year	15,513	106,263	15,513	106,263
Conversion to Common Shares	(15,513)	(106,263)	-	-
Balance, end of period	-	-	15,513	106,263

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

Dividends

In 2014, the Company began paying a monthly dividend of \$0.0335 per share to holders of Common Shares and Non-Voting Convertible Shares. The first monthly dividend was declared in January 2014 and paid in February 2014. The Company increased its monthly dividend to \$0.035 per share starting with the June 2014 dividend payable in July 2014.

As at June 30, 2014, \$27.1 million in dividends had been declared, of which \$21.9 million were paid. Dividends declared are subject to approval by the Board of Directors on a monthly basis. For the period from July 1, 2014 to August 7, 2014, \$5.2 million of dividends have been declared.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

Warrants

	June 30, 2014	December 31, 2013
<i># of Warrants (000s)</i>		
Balance, beginning of year and end of period	2,300	2,300

Each warrant originally entitled the holder to acquire 0.4167 Common Shares of the Company at an exercise price of \$3.10 per 0.4167 of a share until September 15, 2014. The exchange ratio and exercise price are subject to adjustment upon the payment of dividends by the Company and certain other events. The warrants have been adjusted for dividends paid in 2014. At June 30, 2014, the warrants entitled the holder to acquire 0.4329 Common Shares of the Company at an exercise price of \$2.98 per 0.4329 of a share. 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

	June 30, 2014	December 31, 2013
<i>(\$000s)</i>		
Balance, beginning of year	23,377	16,558
Share-based compensation cost	1,842	6,868
Transfer to share capital on exercise of options	(559)	(49)
Balance, end of period	24,660	23,377

Share Option Plan

	June 30, 2014		December 31, 2013	
	Number of Options (000s)	Weighted Average Exercise Price (\$)	Number of Options (000s)	Weighted Average Exercise Price (\$)
Outstanding, beginning of year	10,266	4.50	8,042	4.49
Forfeited	(668)	4.51	(679)	4.45
Exercised	(410)	4.48	(36)	4.49
Granted	-	-	2,939	4.51
Outstanding, end of period	9,188	4.50	10,266	4.50

At June 30, 2014, option exercise prices ranged from \$4.03 to \$5.30 per option for the 9.2 million options outstanding. The weighted average exercise price was \$4.50 per option and the weighted average remaining life of the options was 3.6 years. At June 30, 2014, there were 2.6 million options exercisable, with a weighted average exercise price of \$4.47.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

Earnings Per Share

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Net earnings (\$000s)	20,842	21,099	27,613	20,272
Weighted average number of shares (000s)				
Shares outstanding, beginning of period	125,865	125,620	125,656	125,620
Share options exercised	152	-	219	-
Equity issuance of Common Shares	8,274	-	4,160	-
Weighted average shares outstanding - basic	134,291	125,620	130,035	125,620
Weighted average shares outstanding - diluted	135,437	125,620	130,916	125,620
Basic earnings per share	0.16	0.17	0.21	0.16
Diluted earnings per share	0.15	0.17	0.21	0.16

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. For the six months ended June 30, 2014, 0.5 million options, the effect of the conversion of convertible debentures and the exercise of the warrants were excluded from the calculation of diluted earnings per share (June 30, 2013 - 9.5 million options).

11. CAPITAL RISK MANAGEMENT

The Company's primary capital management objective is to maintain a strong statement of financial position, affording the Company financial flexibility to achieve its goal of paying a monthly dividend while continuing to provide moderate per share growth to shareholders. To manage the capital structure, the Company may adjust capital spending, 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.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

Net Debt to Funds Flow from Operations

<i>(\$000s, except ratios)</i>	June 30, 2014	December 31, 2013
Net Debt		
Bank loan	494,500	423,553
Accounts payable and accrued liabilities	107,396	89,606
Accounts receivable	(71,012)	(53,433)
Deposits and prepaid expenses	(11,799)	(7,571)
Convertible debentures - face value	75,000	-
Net Debt	594,085	452,155
Funds Flow from Operations - Quarter Ended		
Petroleum and natural gas revenue	158,678	124,816
Royalties	(17,598)	(18,213)
Loss on financial derivatives – realized	(10,157)	(1,145)
Operating expense	(37,614)	(33,198)
Transportation expense	(5,287)	(4,971)
General and administration	(9,134)	(7,017)
Interest	(5,507)	(4,300)
Exploration expense	48	(32)
Capital and other taxes	-	(6)
Funds Flow from Operations - Quarter Ended	73,429	55,934
Funds Flow from Operations - Annualized (<i>Quarterly x 4</i>)	293,716	223,736
Net Debt to Funds Flow from Operations (<i>target <= 1.5</i>)	2.0	2.0

Funds flow from operations for the quarter ended June 30, 2014 includes one month of financial results from the Deep Basin assets acquired May 30, 2014.

Debt to Debt plus Equity

<i>(\$000s, except ratios)</i>	June 30, 2014	December 31, 2013
Debt		
Bank loan	494,500	423,553
Convertible debentures - face value	75,000	-
Debt	569,500	423,553
Debt plus Equity		
Debt	569,500	423,553
Shareholders' equity	739,813	616,977
Debt plus Equity	1,309,313	1,040,530
Debt to Debt plus Equity (<i>target <= 0.4</i>)	0.43	0.41

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

12. GENERAL AND ADMINISTRATION EXPENSE

(\$000s)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Salary and employee	8,456	5,110	19,654	13,638
Other	5,948	3,633	9,113	6,920
Gross expenses	14,404	8,743	28,767	20,558
Capitalized costs	(4,128)	(2,842)	(8,639)	(6,785)
Operating recoveries	(1,142)	(408)	(2,265)	(819)
General and administration	9,134	5,493	17,863	12,954

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

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 six months ended June 30, 2014, general and administrative expenses and share issue costs included amounts of \$0.6 million charged to the Company by BDP (June 30, 2013 - \$0.2 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 June 30, 2014, the fair value of the convertible debentures was \$77.6 million, based on Level 1 inputs (quoted prices in the market) as the bonds are traded in an active market.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

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 rates.

The Company has the following commodity financial contracts in place as at June 30, 2014:

Natural Gas	Volume	Pricing
<i>Costless Collars</i>		
July 1, 2014 – December 31, 2014	19,000 GJ/d	CDN \$3.50 - \$4.02/GJ
July 1, 2014 – March 31, 2015	13,000 GJ/d	CDN \$3.50 - \$3.75/GJ
July 1, 2014 – December 31, 2014	10,000 GJ/d	CDN \$3.50 - \$3.90/GJ
July 1, 2014 – December 31, 2015	5,000 GJ/d	CDN \$4.00 - \$4.50/GJ
July 1, 2014 – December 31, 2015	5,000 GJ/d	CDN \$4.00 - \$4.51/GJ
January 1, 2015 – December 31, 2015	20,000 GJ/d	CDN \$3.50 - \$4.00/GJ
January 1, 2015 – December 31, 2015	11,000 GJ/d	CDN \$3.50 - \$4.35/GJ
<i>Crude Oil</i>		
	Volume	Pricing
<i>Costless Collars</i>		
July 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US \$88.00 - \$92.50/Bbl
July 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US \$88.00 - \$92.60/Bbl
July 1, 2014 – December 31, 2014	1,650 Bbl/d	WTI US \$95.00 - \$98.80/Bbl
January 1, 2015 – December 31, 2015	2,500 Bbl/d	WTI US \$95.00 - \$97.50/Bbl
<i>Fixed Price</i>		
July 1, 2014 – August 31, 2014	980 Bbl/d	WTI US \$85.00/Bbl
<i>Calls</i>		
July 1, 2014 – December 31, 2014	500 Bbl/d	WTI US \$85.00/Bbl
July 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
<i>Call Swaptions</i>		
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
<i>Electricity</i>		
	Volume	Pricing
July 1, 2014 – December 31, 2014	1.5 MW/h	CDN \$67.75 MW/h
July 1, 2014 – 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

Notes to the Financial Statements (unaudited)
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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, 2014	December 31, 2013
Assets - Fair value of financial derivatives		
Current	350	1,024
Long-term	1,605	-
	1,955	1,024
Liabilities - Fair value of financial derivatives		
Current	28,232	14,919
Long-term	1,305	3,876
	29,537	18,795
Net Liability	(27,582)	(17,771)

(\$000s)	Crude Oil	Natural Gas	Other	Total
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)
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)

Notes to the Financial Statements (unaudited)

For the six months ended June 30, 2014

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 and interest rate risk, the Company enters into various financial derivative instruments. The instruments currently outstanding are described above.

When assessing the potential impact of price changes on financial derivative contracts outstanding at June 30, 2014, it is estimated that a \$1.00/Bbl increase in the price of oil would increase the unrealized losses by approximately \$3.7 million, while a \$1.00/Bbl decrease in the price of oil would decrease the unrealized losses by approximately \$2.0 million. A \$0.10/GJ change in the price of natural gas would change the unrealized gains or losses by approximately \$1.9 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 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, 2014, five third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue. At June 30, 2014, approximately 48% of the accounts receivable balance is due from three customers.

Accounts Receivable (\$000s)	June 30, 2014	December 31, 2013
Less than 90 days	65,160	49,528
Greater than 90 days	5,852	3,905
Total	71,012	53,433

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 equity sources, and to undrawn committed credit facilities to meet current spending forecasts. At June 30, 2014, \$494.5 million was drawn against the Company's credit facilities, with \$80.5 million of borrowing capacity available.

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

The following are the contractual maturities of the Company's financial liabilities at June 30, 2014:

Financial Liability (\$000s)	>1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	107,396	-	-	107,396
Unrealized financial derivative liabilities	28,232	1,305	-	29,537
Bank loan	-	494,500	-	494,500
Convertible debentures – face value ⁽¹⁾	-	-	75,000	75,000
Total	135,628	495,805	75,000	706,433

⁽¹⁾ Assumes the convertible debentures are not converted into Common Shares.

Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. 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 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. Based on the bank debt outstanding as at June 30, 2014, a one percent change in the interest rate would be expected to impact the quarterly interest expense by approximately \$1.2 million. The Company's convertible debentures are at a fixed annual interest rate of 6.4%.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

(\$000s)	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Source (use) of cash:				
Accounts receivable	(5,261)	(2,183)	(17,579)	(5,793)
Deposits and prepaid expenses	(6,038)	(3,556)	(4,228)	(2,996)
Accounts payable and accrued liabilities	(13,923)	(33,119)	17,790	(11,019)
	(25,222)	(38,858)	(4,017)	(19,808)
Related to:				
Operating activities	(5,452)	(1,958)	(14,375)	(3,907)
Investing activities	(20,790)	(36,900)	5,122	(15,901)
Financing activities	1,020	-	5,236	-
	(25,222)	(38,858)	(4,017)	(19,808)

Notes to the Financial Statements (unaudited)
For the six months ended June 30, 2014

16. COMMITMENTS AND CONTINGENCIES

Commitments

<i>(\$000s)</i>	2014	2015	2016	2017	2018	Thereafter	Total
Operating leases	1,605	3,181	3,118	4,854	6,595	54,133	73,486
Processing	-	4,380	4,380	4,380	4,380	26,281	43,801
Transportation	2,377	5,462	4,634	3,826	2,279	2,940	21,518
Fractionation	1,282	2,224	1,228	268	-	-	5,002
Capital	3,542	-	-	-	-	-	3,542
Total	8,806	15,247	13,360	13,328	13,254	83,354	147,349

At June 30, 2014, the Company is committed under operating leases for office space, contracts related to the processing of natural gas, transportation of natural gas and natural gas liquids, 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.

17. SUBSEQUENT EVENT

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. Each arrangement warrant entitles the holder to purchase one ExploreCo common share at a price of \$1.70 for a period of 30 days following closing of the Arrangement.

Long Run issued approximately 44 million Common Shares of Long Run, based on an exchange ratio of 0.415 Common Shares of Long Run for each of the 105.6 million Crocotta common shares outstanding. In addition, Long Run will assume up to \$115 million of the net debt of Crocotta, defined as bank debt plus accounts payable and accrued liabilities less accounts receivable and deposits and prepaid expenses. The borrowing base for the Company's credit facilities was increased by \$120 million to \$695 million in conjunction with the transaction as described in Note 8.