LONG RUN EXPLORATION LTD.

Financial Statements

September 30, 2014

Statement of Financial Position

($000s)	**September 30, 2014**	December 31, 2013
	(unaudited)	
ASSETS		
CURRENT		
Restricted cash *(note 8)*	**2,390**	-
Accounts receivable	**78,079**	53,433
Deposits and prepaid expenses	**13,413**	7,571
Fair value of financial derivatives *(note 14)*	**7,998**	1,024
	101,880	62,028
Exploration and evaluation assets *(note 5)*	**6,910**	10,758
Property and equipment *(note 6)*	**1,977,866**	1,184,351
Deferred income tax asset	**77,240**	146,207
Fair value of financial derivatives *(note 14)*	**2,483**	-
	2,166,379	1,403,344
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**105,486**	89,606
Fair value of financial derivatives *(note 14)*	**4,495**	14,919
	109,981	104,525
Bank loan *(note 8)*	**632,377**	423,553
Convertible debentures *(note 9)*	**67,800**	-
Decommissioning liabilities *(note 7)*	**361,683**	254,413
Fair value of financial derivatives *(note 14)*	**581**	3,876
	1,172,422	786,367
SHAREHOLDERS' EQUITY		
Share capital *(note 10)*	**1,006,802**	657,666
Equity component of convertible debentures *(note 9)*	**3,483**	-
Contributed surplus *(note 10)*	**25,369**	23,377
Retained earnings (deficit)	**(41,697)**	(64,066)
	993,957	616,977
	2,166,379	1,403,344

Commitments and contingencies *(note 16)*

See accompanying notes to the financial statements.

Statement of Earnings and Comprehensive Income

($000s, except share and per share amounts) (unaudited)	Three months ended September 30 2014	2013	Nine months ended September 30 2014	2013
INCOME				
Petroleum and natural gas revenue	**166,978**	129,923	**477,542**	350,746
Royalties	**(19,377)**	(15,377)	**(55,441)**	(36,920)
	147,601	114,546	**422,101**	313,826
Gain (loss) on financial derivatives				
- realized *(note 14)*	**(4,529)**	(3,585)	**(22,108)**	(1,544)
- unrealized *(note 14)*	**33,737**	(11,050)	**23,926**	(12,892)
	176,809	99,911	**423,919**	299,390
EXPENSES				
Operating	**37,238**	33,614	**111,046**	93,439
Transportation	**5,272**	5,816	**16,102**	15,549
General and administration *(note 12)*	**12,537**	5,378	**30,400**	18,332
Share-based compensation *(note 10)*	**525**	1,167	**1,700**	3,258
Interest	**7,566**	3,633	**17,989**	10,490
Accretion *(note 7, 9)*	**3,025**	1,558	**7,806**	4,591
Depletion and depreciation *(note 6)*	**65,567**	43,290	**165,690**	121,014
Exploration	**254**	179	**772**	215
Gain on disposal of assets *(note 6)*	**(9,750)**	(8,563)	**(19,434)**	(9,698)
	122,234	86,072	**332,071**	257,190
EARNINGS BEFORE TAX	**54,575**	13,839	**91,848**	42,200
Income taxes				
Capital and other taxes	**6**	37	**6**	82
Deferred income tax expense	**13,925**	4,278	**23,585**	12,322
	13,931	4,315	**23,591**	12,404
NET EARNINGS AND COMPREHENSIVE INCOME	**40,644**	9,524	**68,257**	29,796
NET EARNINGS AND COMPREHENSIVE INCOME PER SHARE *(note 10)*				
Basic	**0.23**	0.08	**0.47**	0.24
Diluted	**0.23**	0.08	**0.47**	0.24

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, 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	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**
January 1, 2013	657,455	-	16,558	(88,331)	585,682
Share-based compensation	-	-	5,111	-	5,111
Comprehensive earnings	-	-	-	29,796	29,796
September 30, 2013	657,455	-	21,669	(58,535)	620,589

See accompanying notes to the financial statements.

Statement of Cash Flows

($000s) (unaudited)	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
Cash provided by (used in):				
OPERATING ACTIVITIES				
Net earnings	**40,644**	9,524	**68,257**	29,796
Items not requiring cash:				
Unrealized (gain) loss on financial derivatives *(note 14)*	**(33,737)**	11,050	**(23,926)**	12,892
Share-based compensation	**525**	1,167	**1,700**	3,258
Accretion	**3,025**	1,558	**7,806**	4,591
Depletion and depreciation	**65,567**	43,290	**165,690**	121,014
Gain on disposal of assets	**(9,750)**	(8,563)	**(19,434)**	(9,698)
Deferred income tax expense	**13,925**	4,278	**23,585**	12,322
Abandonment costs *(note 7)*	**(3,189)**	(814)	**(5,232)**	(2,210)
Change in non-cash working capital *(note 15)*	**996**	266	**(13,379)**	(3,641)
	78,006	61,756	**205,067**	168,324
INVESTING ACTIVITIES				
Capital expenditures *(note 5, 6)*	**(75,759)**	(93,137)	**(233,938)**	(234,934)
Acquisitions *(note 4, 6)*	**(8,494)**	(10,802)	**(246,866)**	(35,758)
Dispositions *(note 6)*	**16,641**	7,471	**44,977**	13,324
Change in non-cash working capital *(note 15)*	**(9,764)**	9,315	**(4,642)**	(6,586)
	(77,376)	(87,153)	**(440,469)**	(263,954)
FINANCING ACTIVITIES				
Bank loan issuance	**19,040**	25,397	**89,987**	91,827
Issuance of convertible debentures, net of costs *(note 9)*	**-**	-	**71,566**	-
Dividends declared *(note 10)*	**(18,781)**	-	**(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)*	**1,536**	-	**6,772**	-
	1,760	25,397	**237,792**	91,827
CHANGE IN CASH	**2,390**	-	**2,390**	(3,803)
CASH, BEGINNING OF PERIOD	**-**	-	**-**	3,803
CASH, END OF PERIOD	**2,390**	-	**2,390**	-
SUPPLEMENTAL INFORMATION				
Interest paid	**9,093**	3,710	**17,193**	11,149
Saskatchewan capital taxes paid (refunded)	**6**	(51)	**6**	46

See accompanying notes to 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, 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 November 5, 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.

- 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.

- IFRS 9, *Financial Instruments*, clarifies guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013. The IFRS must be adopted January 1, 2018. The Company has not yet determined the impact of the IFRS on the financial statements.

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 certain natural gas 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.

The financial statements incorporate the operations of the acquired properties commencing May 30, 2014. During the period May 30, 2014 to September 30, 2014, the Company recorded revenues of $22.5 million and net earnings of $2.9 million in respect of these assets. Acquisition costs of $2.0 million were included in the statement of earnings as general and administration expense.

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.

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 oil and gas reserves estimated using internal and independent reserve evaluations. Acquisition costs totalled $6.3 million, of which $4.8 million were included in the statement of earnings as general and administration expense.

The financial statements incorporate the operations of the Crocotta properties commencing August 6, 2014. During the period August 6, 2014 to September 30, 2014, the properties acquired contributed revenues of $14.1 million and net earnings of $2.3 million.

Had the business combination with Crocotta closed on January 1, 2014, management estimates that the corporate activity of Crocotta, adjusted for the property and equipment, deferred tax and decommissioning obligation values determined on August 6, 2014, would have increased revenues by $73.4 million and net earnings by $9.0 million.

5. EXPLORATION AND EVALUATION ASSETS

($000s)	**September 30, 2014**	December 31, 2013
Balance, beginning of year	**10,758**	20,936
Additions	**14**	5,176
Transfers to property and equipment	**(3,862)**	(15,354)
Balance, end of period	**6,910**	10,758

6. PROPERTY AND EQUIPMENT

($000s)	September 30, 2014	December 31, 2013
Property & equipment cost	**2,692,783**	1,769,893
Accumulated depletion, depreciation & impairments	**(714,917)**	(585,542)
Net book value	**1,977,866**	1,184,351

Property & Equipment Cost

($000s)	September 30, 2014	December 31, 2013
Balance, beginning of year	**1,769,893**	1,345,940
Additions	**240,383**	258,561
Acquisitions, including decommissioning costs	**753,427**	169,023
Transfers from exploration and evaluation assets	**3,862**	15,354
Disposals	**(74,782)**	(18,985)
Balance, end of period	**2,692,783**	1,769,893

Accumulated Depletion, Depreciation & Impairments

($000s)	September 30, 2014	December 31, 2013
Balance, beginning of year	**(585,542)**	(406,227)
Depletion and depreciation expense	**(165,690)**	(170,696)
Disposals	**36,315**	4,381
Impairments	**-**	(13,000)
Balance, end of period	**(714,917)**	(585,542)

During the first nine months of 2014, the Company acquired lands and oil and natural gas properties for cash consideration of $246.9 million (September 30, 2013 - $35.8 million), of which $228.8 million was incurred for the acquisition of assets in the Deep Basin area (see Note 4). In addition, on August 6, 2014, the Company acquired $406.7 million of oil and gas properties through the Crocotta acquisition (see Note 4).

Proceeds of $45.0 million were received for the disposition of minor producing properties during the first nine months of 2014 (September 30, 2013 - $13.3 million). These dispositions included the sale of the heavy oil Lloydminster property for proceeds of $12 million, the sale of a Pine Creek property for proceeds of $14.8 million and the sale of a Peace River property for proceeds of $15.3 million. During the nine months ended September 30, 2014, a gain on disposal of properties of $19.4 million was recognized (September 30, 2013 - $9.7 million).

At September 30, 2014, undeveloped land of $46.0 million was excluded from costs subject to depletion (September 30, 2013 - $27.1 million). In addition, future development costs of $1.3 billion were added into costs subject to depletion (September 30, 2013 - $506.3 million).

7. DECOMMISSIONING LIABILITIES

($000s)	September 30, 2014	December 31, 2013
Balance, beginning of year	**254,413**	233,100
Accretion expense	**6,929**	6,110
Liabilities acquired	**112,987**	43,056
Liabilities incurred	**5,510**	8,442
Disposal of liabilities	**(12,924)**	(8,560)
Settlement of liabilities	**(5,232)**	(3,970)
Change in estimates	**-**	(23,765)
Balance, end of period	**361,683**	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 September 30, 2014, the Company estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities was approximately $584.6 million, which will be incurred over the next 40 years (December 31, 2013 - $404.0 million). At September 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 December 31, 2013, the Company had credit facilities of $475 million, of which $423.6 million was drawn. On May 30, 2014, the available borrowing base was increased from $475 million to $575 million in connection with the Deep Basin acquisition (see Note 4), and the termination date was extended to May 31, 2017. On August 6, 2014, the credit facilities borrowing base was increased from $575 million to $695 million in conjunction with the acquisition of Crocotta (see Note 4). At September 30, 2014, $632.4 million was drawn against the credit facilities.

The credit facilities of $695 million consist of a $655 million revolving syndicated facility and a $40 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. 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 September 30, 2014 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 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 nine months ended September 30, 2014, the effective interest rate, including standby and other fees, was 4.4% (September 30, 2013 – 4.4%).

As at September 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.

As at September 30, 2014, the Company had restricted cash on deposit as security for an outstanding letter of credit of $2.4 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.

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:

($000s)	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	877	-	877
Balance, September 30, 2014	67,800	3,483	71,283

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

($000s)	**September 30, 2014**	December 31, 2013
Common Shares	**1,006,802**	551,403
Non-Voting Convertible Shares	**-**	106,263
	1,006,802	657,666

Common Shares

(000s)	September 30, 2014 Number of shares	September 30, 2014 Amount $	December 31, 2013 Number of shares	December 31, 2013 Amount $
Balance, beginning of year	**110,143**	**551,403**	110,107	551,192
Issuance of common shares	**23,530**	**120,003**	-	-
Issuance of common shares upon business combination (*note 4*)	**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**	36	162
Share issue costs, net of deferred tax of $1.7 million	**-**	**(5,102)**	-	-
Transfer from contributed surplus on exercise of stock options	**-**	**657**	-	49
Balance, end of period	**193,498**	**1,006,802**	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 (see Note 4).

On August 6, 2014, the Company issued 43.8 million Common Shares at $5.28 per share in connection with the acquisition of Crocotta (see Note 4).

Non-Voting Convertible Shares

(000s)	September 30, 2014 Number of shares	September 30, 2014 Amount $	December 31, 2013 Number of shares	December 31, 2013 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 September 30, 2014, $45.9 million in dividends had been declared, of which $39.1 million were paid. Dividends declared are subject to approval by the Board of Directors on a monthly basis. For the period from October 1, 2014 to November 5, 2014, $6.8 million of dividends have been declared.

Warrants

# of Warrants (000s)	September 30, 2014	December 31, 2013
Balance, beginning of year	**2,300**	2,300
Expired	**(2,300)**	-
Balance, end of period	**-**	2,300

At December 31, 2013, each warrant 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 were subject to adjustment upon the payment of dividends by the Company. 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. All outstanding warrants expired unexercised on September 15, 2014.

Contributed Surplus

($000s)	September 30, 2014	December 31, 2013
Balance, beginning of year	**23,377**	16,558
Share-based compensation cost	**2,649**	6,868
Transfer to share capital on exercise of options	**(657)**	(49)
Balance, end of period	**25,369**	23,377

Share Option Plan

	September 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	**(841)**	**4.52**	(679)	4.45
Exercised	**(483)**	**4.47**	(36)	4.49
Granted	**-**	**-**	2,939	4.51
Outstanding, end of period	**8,942**	**4.50**	10,266	4.50

At September 30, 2014, option exercise prices ranged from $4.03 to $5.30 per option for the 8.9 million options outstanding. The weighted average exercise price was $4.50 per option and the weighted average remaining life of the options was 3.3 years. At September 30, 2014, there were 2.7 million options exercisable, with a weighted average exercise price of $4.47 per option.

Notes to the Financial Statements (unaudited)
For the nine months ended September 30, 2014

Earnings Per Share

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Net earnings *($000s)*	**40,644**	9,524	**68,257**	29,796
Weighted average number of shares *(000s)*				
Shares outstanding, beginning of period	**149,596**	125,620	**125,656**	125,620
Share options exercised	**43**	-	**298**	-
Issuance of Common Shares	**26,679**	-	**19,678**	-
Weighted average shares outstanding - basic	**176,318**	125,620	**145,632**	125,620
Weighted average shares outstanding - diluted	**177,003**	125,620	**146,511**	125,620
Basic earnings per share	**0.23**	0.08	**0.47**	0.24
Diluted earnings per share	**0.23**	0.08	**0.47**	0.24

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 nine months ended September 30, 2014, 0.4 million options and the effect of the conversion of convertible debentures were excluded from the calculation of diluted earnings per share (September 30, 2013 – 10.0 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 nine months ended September 30, 2014

Net Debt to Funds Flow from Operations

($000s, except ratios)	**September 30, 2014**	December 31, 2013
Net Debt		
Bank loan	**632,377**	423,553
Accounts payable and accrued liabilities	**105,486**	89,606
Restricted cash	**(2,390)**	-
Accounts receivable	**(78,079)**	(53,433)
Deposits and prepaid expenses	**(13,413)**	(7,571)
Convertible debentures - face value	**75,000**	-
Net Debt	**718,981**	452,155
Funds Flow from Operations - Quarter Ended		
Petroleum and natural gas revenue	**166,978**	124,816
Royalties	**(19,377)**	(18,213)
Loss on financial derivatives - realized	**(4,529)**	(1,145)
Operating expense	**(37,238)**	(33,198)
Transportation expense	**(5,272)**	(4,971)
General and administration	**(12,537)**	(7,017)
Interest	**(7,566)**	(4,300)
Exploration expense	**(254)**	(32)
Capital and other taxes	**(6)**	(6)
Funds Flow from Operations - Quarter Ended	**80,199**	55,934
Funds Flow from Operations - Annualized *(Quarterly x 4)*	**320,796**	223,736
Net Debt to Funds Flow from Operations *(target <= 1.5)*	**2.2**	2.0

Funds flow from operations for the quarter ended September 30, 2014 includes 1.8 months of financial results from the Crocotta assets acquired August 6, 2014. As a result, net debt to annualized funds flow only includes approximately 7.2 months of financial results from the Crocotta assets.

Debt to Debt plus Equity

($000s, except ratios)	**September 30, 2014**	December 31, 2013
Debt		
Bank loan	**632,377**	423,553
Convertible debentures - face value	**75,000**	-
Debt	**707,377**	423,553
Debt plus Equity		
Debt	**707,377**	423,553
Shareholders' equity	**993,957**	616,977
Debt plus Equity	**1,701,334**	1,040,530
Debt to Debt plus Equity *(target <= 0.4)*	**0.42**	0.41

12. GENERAL AND ADMINISTRATION EXPENSE

	Three months ended September 30		Nine months ended September 30	
($000s)	**2014**	2013	**2014**	2013
Salary and employee	**8,514**	5,758	**28,168**	19,354
Other	**9,294**	3,354	**18,407**	10,316
Gross expenses	**17,808**	9,112	**46,575**	29,670
Capitalized costs	**(3,969)**	(3,047)	**(12,608)**	(9,832)
Operating recoveries	**(1,302)**	(687)	**(3,567)**	(1,506)
General and administration	**12,537**	5,378	**30,400**	18,332

During the nine months ended September 30, 2014, general and administration expense included $6.8 million of transaction costs related to the Deep Basin and Crocotta acquisitions (see Note 4).

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, 2014, general and administrative expenses and share issue costs included amounts of $1.4 million charged to the Company by BDP (September 30, 2013 - $0.3 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 restricted cash, 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, 2014, the fair value of the convertible debentures was $75.2 million, based on Level 1 inputs (quoted prices in the market) 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 rates.

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

Natural Gas	Volume	Pricing
Costless Collars		
October 1, 2014 – December 31, 2014	19,000 GJ/d	CDN $3.50 - $4.02/GJ
October 1, 2014 – March 31, 2015	13,000 GJ/d	CDN $3.50 - $3.75/GJ
October 1, 2014 – December 31, 2014	10,000 GJ/d	CDN $3.50 - $3.90/GJ
October 1, 2014 – December 31, 2015	5,000 GJ/d	CDN $4.00 - $4.50/GJ
October 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
Fixed Price		
October 1, 2014 – October 31, 2014	5,000 GJ/d	CDN $3.505/GJ
October 1, 2014 – October 31, 2014	5,000 GJ/d	CDN $3.65/GJ
October 1, 2014 – October 31, 2014	10,000 GJ/d	CDN $3.745/GJ

Crude Oil	Volume	Pricing
Costless Collars		
October 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US $88.00 - $92.50/Bbl
October 1, 2014 – December 31, 2014	2,000 Bbl/d	WTI US $88.00 - $92.60/Bbl
October 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
Fixed Price		
October 1, 2014 – December 31, 2014	500 Bbl/d	WTI CDN $100.80/Bbl
October 1, 2014 – April 30, 2015	1,000 Bbl/d	WTI US $85.00/Bbl
October 1, 2014 – April 30, 2015	1,000 Bbl/d	WTI US $90.00/Bbl
Calls		
October 1, 2014 – December 31, 2014	500 Bbl/d	WTI US $85.00/Bbl
October 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

Electricity	Volume	Pricing
October 1, 2014 – December 31, 2014	1.5 MW/h	CDN $67.75 MW/h
October 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

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, 2014**	December 31, 2013
Assets - Fair value of financial derivatives		
Current	**7,998**	1,024
Long-term	**2,483**	-
	10,481	1,024
Liabilities - Fair value of financial derivatives		
Current	**4,495**	14,919
Long-term	**581**	3,876
	5,076	18,795
Net Asset (Liability)	**5,405**	(17,771)

($000s)	**Crude Oil**	**Natural Gas**	**Other**	**Total**
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**
Nine months ended September 30, 2013				
Realized (gain) loss on financial derivatives	8,598	(6,453)	(601)	1,544
New contracts	(4,273)	2,153	-	(2,120)
Cancelled contracts	5,357	-	-	5,357
Change in value	(18,594)	(105)	1,026	(17,673)
Unrealized gain (loss) on financial derivatives	(8,912)	(4,405)	425	(12,892)
December 31, 2012 - Net Asset (Liability)	(13,910)	8,234	(360)	(6,036)
September 30, 2013 - Net Asset (Liability)	(22,822)	3,829	65	(18,928)

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 September 30, 2014, it is estimated that a $1.00/Bbl increase in the price of oil would decrease the unrealized gains by approximately $2.4 million, while a $1.00/Bbl decrease in the price of oil would increase the unrealized gains by approximately $1.6 million. A $0.10/GJ change in the price of natural gas would change the unrealized gains or losses by approximately $1.0 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 nine months ended September 30, 2014, five third party purchasers each marketed more than 10% of the Company's petroleum and natural gas revenue. At September 30, 2014, approximately 46% of the accounts receivable balance is due from three customers.

Accounts Receivable *($000s)*	**September 30, 2014**	December 31, 2013
Less than 90 days	**71,107**	49,528
Greater than 90 days	**6,972**	3,905
Total	**78,079**	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 September 30, 2014, $632.4 million was drawn against the Company's credit facilities, with $62.6 million of borrowing capacity available.

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

Financial Liability *($000s)*	<1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	105,486	-	-	105,486
Unrealized financial derivative liabilities	4,495	581	-	5,076
Bank loan	-	632,377	-	632,377
Convertible debentures – face value [1]	-	-	75,000	75,000
Total	109,981	632,958	75,000	817,939

[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 September 30, 2014, a one percent change in the interest rate would be expected to impact the quarterly interest expense by approximately $1.6 million. The Company's convertible debentures bear interest at a fixed annual interest rate of 6.4%.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Net Change in Non-Cash Working Capital

	Three months ended September 30		**Nine months ended September 30**	
($000s)	**2014**	2013	**2014**	2013
Source (use) of cash:				
Accounts receivable	**(7,067)**	(317)	**(24,646)**	(6,110)
Deposits and prepaid expenses	**(1,614)**	(816)	**(5,842)**	(3,812)
Accounts payable and accrued liabilities	**(1,910)**	10,714	**15,880**	(305)
Business combination	**3,359**	-	**3,359**	-
	(7,232)	9,581	**(11,249)**	(10,227)
Related to:				
Operating activities	**996**	266	**(13,379)**	(3,641)
Investing activities	**(9,764)**	9,315	**(4,642)**	(6,586)
Financing activities	**1,536**	-	**6,772**	-
	(7,232)	9,581	**(11,249)**	(10,227)

16. COMMITMENTS AND CONTINGENCIES

Commitments

($000s)	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Operating leases	994	4,712	4,238	5,979	7,720	58,072	81,715
Processing	-	4,380	4,380	4,380	4,380	26,281	43,801
Transportation	1,458	9,245	12,667	11,247	8,953	8,556	52,126
Fractionation	641	2,224	1,228	233	-	-	4,326
Capital	1,597	4,293	2,147	-	-	-	8,037
Total	4,690	24,854	24,660	21,839	21,053	92,909	190,005

At September 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.