Long Run Exploration Ltd. Announces 2014 Second Quarter Results

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CALGARY, ALBERTA--(Marketwired - Aug 7, 2014) - Long Run Exploration Ltd. (TSX:LRE) ("Long Run" or the "Company") is pleased to announce our second quarter financial and operational results. These results are on track to meet 2014 guidance in our first year operating under the dividend plus growth model. The Company remains focused on a long-term sustainable business plan.

SECOND QUARTER 2014 HIGHLIGHTS

- Generated funds flow from operations of $73.4 million ($0.54 per share), an 8% per share increase over $63.2 million ($0.50 per share) in the second quarter of 2013.
- Production averaged 27,602 Boe/d, a 13% increase from 24,431 Boe/d in the second quarter of 2013.
- Increased our monthly dividend by 5% from $0.0335 per share to $0.035 per share, starting with the June dividend payable in July. Second quarter 2014 dividends declared totaled $0.10 per share, or $14.5 million, with a basic payout ratio of 20%.
- Commenced a focused development program following spring break-up, drilling 22.0 net wells with a 100% success rate. Capital expenditures totaled $57.3 million, concentrated on our Peace River Montney and Redwater Viking areas.
- Successfully closed the previously announced property acquisition (the "Deep Basin Acquisition") for approximately $228.8 million, which provided a key entry point into the Wapiti and Pine Creek areas of Alberta, focused on Cardium exploration and development. A $120 million bought deal equity financing was closed in conjunction with the acquisition. Long Run's credit facility borrowing base was increased by $100 million to $575 million upon closing of the transaction.
- Entered into an agreement to acquire Crocotta Energy Inc. (the "Crocotta Acquisition"), which closed on August 6, 2014. The Crocotta Acquisition gives Long Run a major presence in the liquids-rich natural gas Deep Basin fairway in Pine Creek, focusing on the Cardium and Bluesky formations. This acquisition, combined with the Deep Basin Acquisition, creates an exciting new core area which will provide exploration and development opportunities and add strategic ownership in gathering and processing infrastructure. As consideration, Long Run issued 44 million Common Shares and will assume up to $115 million of the net debt of Crocotta. The credit facility borrowing base was increased by $120 million to $695 million in conjunction with the transaction.

SUMMARY OF QUARTERLY RESULTS

	Three months ended June 30,			Six months ended June 30,		
($000s, except per share amounts or unless otherwise noted)	2014	2013	% Change	2014	2013	% Change
Funds flow from operations[1]	73,429	63,227	16	143,479	111,871	28
Per share, basic [1]	0.55	0.50	10	1.10	0.89	24
Per share, diluted [1]	0.54	0.50	8	1.10	0.89	24
Net earnings	20,842	21,099	(1)	27,613	20,272	36
Per share, basic	0.16	0.17	(6)	0.21	0.16	31
Per share, diluted	0.15	0.17	(12)	0.21	0.16	31
Dividends declared	14,468	-	-	27,107	-	-
Dividends per share	0.10	-	-	0.20	-	-
Payout ratio [1]	20 %	-	-	19 %	-	-
Capital expenditures	57,330	38,878	47	158,179	141,797	12
Net acquisitions	213,716	1,158	18,356	210,036	19,103	999
Bank loan	494,500	327,603	51	494,500	327,603	51

Net debt [1]	594,085	343,548	73	594,085	343,548	73
Net debt to funds flow from operations [1]	2.0	1.4	-	2.0	1.4	-
Production						
Oil *(Bbl/d)*	12,476	11,471	9	12,580	11,291	11
Natural gas liquids *(Bbl/d)*	2,038	1,116	83	1,812	1,182	53
Natural gas *(Mcf/d)*	78,524	71,058	11	73,327	69,297	6
Total *(Boe/d)*	27,602	24,431	13	26,613	24,023	11
Prices, including derivatives						
Oil *($/Bbl)*	89.59	81.80	10	87.73	77.39	13
Natural gas liquids *($/Bbl)*	72.76	68.91	6	78.89	72.28	9
Natural gas *($/Mcf)*	4.61	3.89	19	5.03	3.76	34
Total *($/Boe)*	59.13	53.29	11	60.82	51.26	19
Operating netback *($/Boe)*	35.04	32.57	8	35.76	30.30	18
Corporate netback *($/Boe)*	29.21	28.47	3	29.89	25.75	16
Share Information (000s)						
Common Shares and Non-Voting Convertible Shares outstanding, end of period	149,596	125,620	19	149,596	125,620	19
Weighted average shares outstanding - basic	134,291	125,620	7	130,035	125,620	4
Weighted average shares outstanding - diluted	135,437	125,620	8	130,916	125,620	4

[1] *See "Non-GAAP Measures" section.*

Selected financial and operational information outlined in this news release should be read in conjunction with the Company's unaudited interim financial statements and related Management's Discussion and Analysis for the period ended June 30, 2014, which are available for review at www.sedar.com and on our website at www.longrunexploration.com.

Q2 2014 FINANCIAL UPDATE

Second quarter 2014 funds flow from operations was $73.4 million ($0.54 per share), an increase of 8% per share from $63.2 million ($0.50 per share) in the second quarter of 2013. The increased funds flow was attributable to higher production volumes and commodity prices, partially offset by higher royalties and operating costs associated with the increased production. Funds flow from operations in 2014 includes one month of operating results from the Deep Basin properties acquired on May 30, 2014.

Net income for the second quarter of 2014 was $20.8 million, compared to $21.1 million in the second quarter of 2013. Higher funds flow from operations and gain on disposal of assets in 2014 was offset by higher depletion expense and a lower unrealized gain on financial derivatives.

Long Run's operating netback of $35.04/Boe and corporate netback of $29.21/Boe in the second quarter of 2014 reflect stronger commodity prices and a higher weighting of oil and NGL production volumes compared to the second quarter of 2013. The Company's average oil price including derivative contracts of $89.59/Bbl in the second quarter of 2014 compares to $81.80/Bbl in the second quarter of 2013. The increase reflects higher West Texas Intermediate benchmark pricing, a stronger U.S. dollar, and narrower field differentials. Long Run's natural gas price including derivative contracts of $4.61/Mcf in the second quarter of 2014 increased from $3.89/Mcf in the second quarter of 2013 due to stronger AECO benchmark pricing.

The Company's net debt of $594.1 million at June 30, 2014 increased from $452.2 million at December 31, 2013. Net debt to funds flow from operations at June 30, 2014 was 2.0 times, consistent with the ratio at December 31, 2013. Net debt at June 30, 2014 reflects a portion of the acquisition funded with debt and the front end weighted 2014 capital development program. Funds flow for the second quarter includes only one month of financial results from the Deep Basin Acquisition assets acquired on May 30, 2014. Annualized funds flow used in the net debt to funds flow calculation included only four months of the acquisition's financial results. After giving effect to the Crocotta Acquisition, we expect to exit 2014 with net debt to funds flow from operations of 1.75 times. In 2015, we will target to further reduce the ratio.

Q2 2014 OPERATIONAL UPDATE

During the second quarter, we were focused on the integration of our new core area and the commencement of our summer drilling program. As planned, capital expenditures of $57.3 million were incurred, with $33.6 million spent in Peace River and $16.6 million spent in Redwater. Of the 22.0 net successful wells drilled, 11.0 were horizontal Montney oil wells drilled in Peace River and 11.0 were oil wells drilled in Redwater. These wells are expected to be tied in and on production in the third quarter.

In the Peace River Montney, total capital spending of $120.0 million is planned for 2014, including the drilling of approximately 43 net wells. In the Redwater Viking, total 2014 capital spending of $70.0 million is planned, including the drilling of 44 net wells. During the quarter, we began evaluating our acquired Deep Basin Cardium oil and natural gas properties. We expect to spend approximately $40.0 million in the area in the second half of 2014, including the drilling of approximately 11 net wells.

Production volumes for the second quarter 2014 averaged 27,602 Boe/d (53% oil and NGLs), an increase of 3,171 Boe/d from 24,431 Boe/d (52% oil and NGLs) in the second quarter of 2013. The production increase resulted from our successful drilling programs over the past year, the one month impact of our Deep Basin Acquisition, as well as other strategic tuck-in acquisitions in late 2013. The Deep Basin Acquisition added 2,008 Boe/d of production during the second quarter of 2014, with 200 Boe/d curtailed due to third party plant restrictions and shut-downs. We expect 2014 production to average 32,100 Boe/d, including the impact of the Crocotta Acquisition.

The Enhanced Oil Recovery ("EOR") projects initiated in the Peace River Montney developments at Normandville and Girouxville in 2013 have been operating successfully to date. We are on track to expand these EOR projects during the second half of 2014. At Redwater, a second pilot EOR project is planned for the Viking, which will be implemented in the fourth quarter of 2014. The second pilot will complement the first Redwater Viking EOR project initiated during 2013 and provide further technical data which will be used to evaluate field-wide EOR implementation.

CROCOTTA ACQUISITION

On August 6, 2014, Long Run 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 Long Run Common Shares, 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 Long Run Share, 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 Long Run Shares, based on an exchange ratio of 0.415 Long Run Shares 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. Long Run's credit facilities borrowing base was increased by $120 million to $695 million in conjunction with the transaction.

The Crocotta Acquisition adds approximately 7,500 Boe/d (30% oil and NGLs) of production in the Deep Basin area, as well as additional Cardium light oil and Bluesky natural gas locations. The acquisition also adds significant ownership of operated gathering and processing infrastructure in the area, comprised of 50 MMcf/d of natural gas handling, oil batteries, pipeline gathering systems and an Alliance pipeline connection (meter station). The assets also include a working interest in the Edson natural gas plant and provide access to increased NGL value through existing marketing arrangements. This expanded facility and infrastructure maximizes operational efficiencies while reducing corporate reliance on third-party facilities and allows for growth and expansion of Long Run's position in the area with no foreseeable infrastructure constraints.

OUTLOOK & 2014 GUIDANCE

Long Run is focused on providing long-term value to shareholders through a sustainable dividend plus growth model. We believe maintaining a strong balance sheet and financial flexibility is key to this model. Controlled exploitation of our core assets and strategic acquisitions form the basis of our goal of funding both capital expenditures and dividends from funds flow from operations.

Our 2014 guidance provided on June 12, 2014 in connection with the Crocotta Acquisition announcement remains unchanged.

Guidance (1)	2014 Post Transactions (2)
Production average	32,100 Boe/d
Average production per share	0.073 Boe
% oil and NGLs	50%
Funds flow from operations (3)	$320 mm
Funds flow from operations per share(3)	$2.00
Development capital	$250 mm
Dividend	$67 mm
Dividend per share (annual)	$0.4125
Free funds flow (3)	$3 mm
Free funds flow per share (3)	$0.02
Exit net debt to funds flow (3)	1.75x
Total sustainability ratio (3)	99%

(1) 2014 Guidance is based on the following assumptions for the remainder of the year: US WTI$95/Bbl; AECO $4.22/Mcf; FX USD/CDN 1.1.

(2) 2014 Post Transactions results include Long Run's 12-month estimated results, plus the Deep Basin Acquisition assets estimated results for 7 months and the Crocotta Acquisition assets estimated results for 5 months.

(3) See "Non-GAAP Measures" section.

ADVISORIES

Non-GAAP Measures

The press release contains terms commonly used in the oil and gas industry, such as funds flow from operations, funds flow from operations per share, payout ratio, net debt to funds flow from operations, net debt, free funds flow, free funds flow per share and total sustainability ratio. These terms are not defined by International Financial Reporting Standards (IFRS) and should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as an indicator of Long Run's performance. These measures are commonly used in the oil and gas industry and by Long Run to provide shareholders and potential investors with additional information regarding the Company's liquidity and its ability to generate funds to finance its operations. Long Run's determination of these measures may not be comparable to that reported by other companies. Funds flow from operations is calculated as cash flow from operating activities before changes in non-cash working capital and abandonment expenditures. Funds flow from operations per share is calculated by dividing funds flow from operations by the weighted average number of common shares outstanding. Payout ratio is calculated by dividing dividends by funds flow from operations. Net debt is defined as bank debt plus the face amount of convertible debentures plus working capital. Net debt to funds flow from operations is defined as net debt divided by annualized funds flow from operations. Free funds flow is calculated as funds flow from operations less capital expenditures and dividends. Free funds flow per share is calculated by dividing free funds flow by the weighted average number of common shares outstanding. Sustainability ratio is defined as net capital expenditures, less the costs associated with the Deep Basin Acquisition and the Crocotta Acquisition, plus dividends divided by funds flow from operations. Long Run has provided further information on how these measures are calculated in the Management's Discussion and Analysis dated August 7, 2014 and available under the Company's SEDAR profile at www.sedar.com.

Oil and Gas Information

Barrels of oil equivalent may be misleading, particularly if used in isolation. A Boe conversion ratio of six thousand cubic feet of natural gas to one barrel of crude oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency conversion ratio of 6:1, utilizing a conversion on a 6:1 basis is misleading as an indication of value.

Operating netback per Boe is calculated by subtracting royalties, transportation and operating costs from revenues including derivatives and dividing by total production. Corporate netback per Boe is calculated as operating netback less interest and general and administration costs and divided by total production.

Forward Looking Statements

This press release contains forward-looking statements and forward-looking information (collectively "forward-looking information") within the meaning of applicable securities laws relating to the Company's plans and other aspects of Long Run's anticipated future operations, management focus, objectives, strategies, financial, operating and production results and opportunities, including expected effects of the Deep Basin Acquisition and the Crocotta Acquisition, 2014 average production and production per share, commodity mix, funds flow from operations and funds flow from operations per share, capital expenditures, dividends and dividends per share, free funds flow and free funds flow per share, exit net debt to funds flow from operations and sustainability ratio, our capital expenditure program, nature of expenditures and method of funding capital expenditures and dividends, drilling and development plans and the timing thereof and sources of funding and timing of field implementation of EOR and timing of expansion of EOR and second pilot EOR at Redwater and effect thereof. Forward-looking information typically uses words such as "anticipate", "believe", "project", "expect", "goal", "plan", "intend" or similar words suggesting future outcomes, statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. The forward-looking information is based on certain key expectations and assumptions made by Long Run's management, including expectations and assumptions concerning prevailing commodity prices, exchange rates, interest rates, applicable royalty rates and tax laws; future production rates and estimates of operating costs; performance of existing and future wells; reserve and resource volumes; anticipated timing and results of capital expenditures;
the success obtained in drilling new wells; the sufficiency of budgeted capital expenditures in carrying out planned activities; the timing, location and extent of future drilling operations; the state of the economy and the exploration and production business; results of operations; performance; business prospects and opportunities; the availability and cost of financing, labor and services; the impact of increasing competition; ability to market oil and natural gas successfully; and Long Run's ability to access capital, and obtaining the necessary regulatory approvals. Included herein are estimates of Long Run's 2014 funds flow from operations, funds flow from operations per share, free funds flow, free funds flow per share, exit net debt to funds flow from operations and sustainability ratio based on assumptions provided herein and other assumptions utilized in arriving at Long Run's capital budget on a post-acquisition basis. To the extent such estimates constitute a financial outlook, they were approved by management on June 12, 2014 and are included herein to provide readers with an understanding of the effects of the Deep Basin Acquisition and the Crocotta Acquisition and anticipated funds available to Long Run to fund its capital expenditures, dividends and the effects thereof on debt levels and readers are cautioned that the information may not be appropriate for other purposes.

Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because Long Run can give no assurance that they will prove to be correct. Since forward-looking information addresses future events and conditions, by its very nature they involve inherent risks and uncertainties. Transactions referred to in this press release may not be completed on the anticipated time frames or at all and the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur, or if any of them do so, what benefits that the Company will derive there from. Management has included the above summary of assumptions and risks related to forward-looking information provided in this press release in order to provide security holders with a more complete perspective on Long Run's future operations and such information may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Additional information on these and other factors that could affect our operations or financial results are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com).

These forward-looking statements are made as of the date of this press release and Long Run disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Dividends

The payment and the amount of dividends declared in any month will be subject to the discretion of the board of directors of the Corporation and will depend on the board of director's assessment of Long Run's outlook for growth, capital expenditure requirements, funds from operations, potential acquisition opportunities, debt position and other conditions that the board of directors may consider relevant at such future time. The amount of future cash dividends, if any, may also vary depending on a variety of factors, including fluctuations in commodity prices.

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
Bbl	barrels	Mcf	thousand cubic feet
Bbl/d	barrels per day	Mcf/d	thousand cubic feet per day
NGLs	natural gas liquids		
Boe	barrels of oil equivalent		
Boe/d	barrels of oil equivalent per day		
Liquids	light oil, heavy oil, and NGLs		

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