

# Long Run Exploration Ltd. Announces 2014 First Quarter Results as a Dividend Plus Growth Company

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CALGARY, ALBERTA--(Marketwired - May 6, 2014) - **LONG RUN EXPLORATION LTD. (TSX:LRE)** ("Long Run" or the "Company") is pleased to announce our first quarter financial and operational results.

Results from the first quarter of 2014 support our focus on a sustainable business plan which includes the payment of a monthly dividend and provides annual per share growth. For 2014, we expect capital expenditures and dividend payments to be fully funded using funds flow from operations.

## FIRST QUARTER 2014 HIGHLIGHTS

- Successfully transitioned to a dividend plus growth model, paying an initial monthly dividend of \$0.0335 per share. First quarter 2014 declared dividends totaled \$0.10 per share, or \$12.6 million, with a basic payout ratio of 18%.
- Generated funds flow from operations of \$70.1 million (\$0.56/share), a 44% increase from \$48.6 million (\$0.39/share) in the first quarter of 2013.
- Production averaged 25,613 BOE/d, an 8% increase from 23,611 BOE/d in the first quarter of 2013.
- Executed an oil focused drilling program of 47.5 net wells, with a 100% success rate. Capital expenditures totaled \$101 million, concentrated on growing our core Peace River Montney and Redwater Viking areas.
- Issued \$75 million of convertible debentures to strengthen our balance sheet by providing Long Run with additional financial flexibility through the diversification of our indebtedness and interest rate certainty on a portion of our debt.
- Subsequent to the end of the first quarter, successfully negotiated the previously announced acquisition of certain strategic liquids-rich natural gas assets focused on the Cardium in the Deep Basin area of Alberta (the "Acquisition"). The Acquisition provides Long Run with a new core area with high quality liquids-rich natural gas and light oil opportunities, in close proximity to our existing Peace River and Redwater areas. Total consideration, after closing adjustments, is expected to be approximately \$225 million, with an expected close date of on or before May 30, 2014. In connection with the Acquisition, on April 30, 2014, the Company issued \$120 million of common equity subscription receipts to partially fund the Acquisition.

Conditional on the closing of the Acquisition, the Company intends to increase our monthly dividend by 5% from \$0.0335 per share to \$0.035 per share (\$0.42 annualized) starting with the June 2014 dividend payable in July 2014.

## SUMMARY OF QUARTERLY RESULTS

(\$000s, except per share amounts or unless otherwise noted)	Three months ended March 31,		
	2014	2013	% Change
Funds flow from operations <sup>(1)</sup>	70,050	48,644	44
Per share, basic <sup>(1)</sup>	0.56	0.39	44
Per share, diluted <sup>(1)</sup>	0.56	0.39	44
Net earnings (loss)	6,771	(827)	-
Per share, basic	0.05	(0.01)	-
Per share, diluted	0.05	(0.01)	-

Dividends declared	12,639	-	-
Payout Ratio <sup>(1)</sup>	18%	-	-
Capital expenditures	100,848	102,919	(2)
Net acquisitions (dispositions)	(3,679)	17,945	-
Bank loan	370,941	311,502	19
Net debt <sup>(1)</sup>	495,748	366,305	35
Net debt to funds flow from operations <sup>(1)</sup>	1.8	1.9	-
Production			
Oil (Bbl/d)	12,684	11,109	14
Natural gas liquids (Bbl/d)	1,584	1,249	27
Natural gas (Mcf/d)	68,071	67,516	1
Total (BOE/d)	25,613	23,611	8
Prices, including derivatives			
Oil (\$/Bbl)	85.89	72.77	18
Natural gas liquids (\$/Bbl)	86.87	75.33	15
Natural gas (\$/Mcf)	5.53	3.63	52
Total (\$/BOE)	62.67	49.12	28
Operating netback (\$/BOE)	36.55	27.93	31
Corporate netback (\$/BOE)	30.63	22.90	34
Share Information			
Common shares and non-voting convertible shares outstanding, end of period	125,865	125,620	-
Weighted average basic shares outstanding	125,730	125,620	-
Weighted average diluted shares outstanding	126,129	125,620	-

<sup>(1)</sup> 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 March 31, 2014, which are available for review at [www.sedar.com](http://www.sedar.com) and on our website at [www.longrunexploration.com](http://www.longrunexploration.com).

## Q1 2014 FINANCIAL UPDATE

First quarter 2014 funds flow from operations was \$70.1 million (\$0.56/share), an increase of 44% from \$48.6 million in the first quarter of 2013 primarily as a result of higher oil and NGLs production volumes and higher commodity prices. The increase was partially offset by higher royalties and higher operating costs associated with the increase in the liquids production. Operating costs were also impacted by the extreme cold weather experienced in Alberta, which increased well servicing, fuel, and labour costs.

Net income for the first quarter of 2014 was \$6.8 million, compared to a net loss of \$0.8 million in the first quarter of 2013. The increase in net income results from the higher funds flow from operations, partially offset by higher depletion expense related to the increase in production volumes.

Long Run's operating netback of \$36.55/BOE and corporate netback of \$30.63/BOE in the first quarter of 2014 reflect stronger commodity prices and the higher weighting of oil and NGL production volumes. The Company's average oil price of \$85.89/Bbl in the first quarter of 2014 compares to \$72.77/Bbl in the first quarter of 2013. This increase resulted from a strong U.S. dollar and higher West Texas Intermediate benchmark pricing. Long Run's natural gas price of \$5.53/Mcf in the first quarter of 2014 increased from \$3.63/Mcf in the first quarter of 2013, reflecting the stronger AECO benchmark pricing.

The Company's net debt of \$496 million at March 31, 2014 increased from \$366 million at March 31, 2013 as Long Run grew its core areas through a combination of acquisitions and development. At March 31, 2014, Long Run's net debt to funds flow from operations was 1.8x compared to 2.0x at December 31, 2013. The Company expects net debt to funds flow from operations to be 1.6x at December 31, 2014, prior to the Acquisition.

## Q1 2014 OPERATIONAL UPDATE

During the first quarter, we were focused on executing an active drilling program and integrating our fourth quarter 2013 light oil property acquisitions in the Peace River and Redwater core areas. Of the 47.5 net successful wells drilled in the first quarter, 17.5 net horizontal Montney oil wells were drilled in Peace River and 27.0 net Viking oil wells were drilled in Redwater. All of the wells drilled have now been tied-in and will be reflected in our second quarter production.

Capital expenditures of \$101 million were incurred as budgeted, with \$53 million spent in Peace River and \$40 million spent in Redwater. In the Peace River Montney, forecast 2014 capital spending is expected to total \$120 million, including the drilling of approximately 23 net additional wells. In the Redwater Viking, forecast 2014 capital spending is expected to total \$70 million, including the drilling of approximately 16 net additional wells.

Production volumes for the first quarter 2014 averaged 25,613 BOE/d (56% liquids), an increase of 2,002 BOE/d from 23,611 BOE/d (52% liquids) in the first quarter of 2013. The production increase resulted from our successful drilling program over the past year, as well as strategic tuck-in acquisitions. Long Run exited the first quarter of 2014 with on target production of 27,000 BOE/d (57% liquids). We expect Long Run's 2014 production to average 26,300 BOE/d prior to the Acquisition and 29,200 BOE/d post the Acquisition.

The Enhanced Oil Recovery ("EOR") projects initiated in the Peace River Montney developments at Normandville and Girouxville in 2013 have been successfully injecting to-date in line with our reservoir models. We plan to expand these EOR projects during the second half of 2014. At Redwater, a second pilot EOR project is planned and will be implemented in the fourth quarter of 2014. This will complement the first EOR project, which was initiated during 2013, and will provide further technical support for field-wide EOR implementation starting in 2015.

## **DEEP BASIN CARDIUM ACQUISITION**

The Acquisition assets are located primarily in the Deep Basin area of western Alberta, with development and exploration focused in the Greater Wapiti area (Kakwa, Elmworth and Wapiti) and the Edson Pine Creek area. The Wapiti area is focused primarily on Cardium liquids-rich natural gas. The Edson Pine Creek area is focused on Cardium light oil. The Acquisition properties were producing approximately 7,000 BOE/d, consisting of 1,700 Bbls/d of liquids and 32.0 MMcf/d of natural gas, on April 9, 2014. We anticipate drilling five wells on the acquired properties in 2014, with capital expenditures of approximately \$20 million.

As previously noted, the Acquisition is expected to close on or before May 30, 2014, with an effective date of April 1, 2014. Total consideration, after closing adjustments, is expected to be approximately \$225 million. The Acquisition will be funded from the Company's \$120 million bought deal equity financing (the "Offering"), the disposition of 400 BOE/d of heavy oil from our Lloydminster property and the Company's credit facilities. On April 30, 2014, Long Run closed the Offering of 23.5 million subscription receipts ("Subscription Receipts") at a price of \$5.10 per Subscription Receipt. Each Subscription Receipt entitles the holder to receive one common share of the Company, without additional payment, upon closing of the Acquisition. The proceeds from the Offering will be held in escrow until the closing of the Acquisition. Long Run anticipates the authorized amount under our credit facilities will increase \$100 million to approximately \$575 million on closing of the Acquisition.

## **SPROTT RESOURCE CORP. SECONDARY FINANCING**

On April 30, 2014, Long Run and Sprott Resource Corp. announced they entered into an agreement with a syndicate of underwriters for a secondary offering by Sprott Resource Corp. of 12.7 million Long Run Common Shares on a bought deal basis at a price of \$5.35 per share. Long Run will receive no proceeds from this transaction and the total number of Long Run shares outstanding will not change. The transaction is expected to close on or about May 21, 2014. Sprott Resource Corp. announced that upon completion of the secondary offering, they intend to convert their 15.5 million Long Run Non-Voting Convertible Shares into 15.5 million Long Run Common Shares. This also will have no impact on the total number of Long Run shares outstanding or Long Run's total shareholders' equity.

## **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.

Based on Long Run's first quarter 2014 results, our 2014 guidance provided in the Acquisition announcement on April 9, 2014 remains unchanged. Following the closing of the Acquisition, we will review and update our development plan based on a detailed review of the Acquisition assets, the economics of our current plays, prevailing commodity prices, and strategic priorities.

Guidance <sup>(1)</sup>	2014 Pre-Acquisition	2014 12-month Pro Forma <sup>(2)(3)</sup>
Production average	26,300 BOE/d	32,150 BOE/d
Average production per share	0.075 BOE/d	0.078 BOE/d
% oil and NGLs	56%	50%
Funds flow from operations <sup>(4)</sup>	\$275 million	\$318 million
Funds flow from operations per share <sup>(4)</sup>	\$2.19	\$2.12
Capital expenditures <sup>(5)</sup>	\$210 million	\$230 million
Dividend	\$52 million	\$64 million
Dividend per share (annual)	\$0.402	\$0.42
Exit net debt to funds flow from operations <sup>(4)</sup>	1.6x	1.7x
Sustainability ratio <sup>(4)</sup>	95%	92%

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.

1. 2014 12-month pro forma assumes the Acquisition and the Offering were completed January 1, 2014 and that Long Run owned the assets acquired in the Acquisition for the 12 months ended December 31, 2014. Closing date of the Acquisition is scheduled for May 30, 2014.

1. Long Run's estimated actual 2014 results, which include Long Run's 12-month estimated results plus the Acquisition assets May 30, 2014 post-closing results for 7-months, are as follows: Production of 29,200 BOE/d; Capital expenditures of \$230 million; Net capital expenditures of \$450 million; Funds flow from operations of \$295 million; Dividends declared of \$58 million.

1. See "Non-GAAP Measures" section.

1. Excludes net dispositions of \$5 million for 2014 Pre-Acquisition and for 2014 12-month Pro Forma.

## 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 and 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 value 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. Sustainability ratio is defined as capital expenditures 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 May 5, 2014 and available under the Company's SEDAR profile at [www.sedar.com](http://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.

### *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 Acquisition and the Offering, 2014 and 2014 pro forma 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, 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. In addition, and without limiting the generality of the foregoing, this press release contains forward-looking information regarding the Acquisition, the Offering and the benefits to be acquired therefrom and the impacts on Long Run and its financial and operating results and development plan including anticipated production and commodity mix, operating netbacks, capital expenditures, outstanding debt levels, dividends, and sustainability ratio, including anticipated dividend increase and the amount and timing of such increase, funds flow from operations, debt levels, debt to funds flow from operations.

This press release also contains forward-looking information relating to the estimated purchase price of the Acquisition, the sources of funding of the Acquisition, the anticipated increase in Long Run's credit facilities in connection with the Acquisition, the anticipated closing date for the Acquisition. 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; Long Run's ability to access capital, and obtaining the necessary regulatory approvals, including satisfaction of the conditions to closing the Acquisition and the other transactions referred to in this press release and on the timeframes contemplated. Included herein are estimates of Long Run's 2014 12-month pre-Acquisition and pro forma 2014 funds flow from operations, funds flow from operations 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 and Offering basis. To the extent such estimates constitute a financial outlook, they were approved by management on April 9, 2014 and are included herein to provide readers with an understanding of the effects of the Acquisition and the Offering 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. The Acquisition and the other 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 securityholders 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](http://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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