Long Run Exploration Ltd. Announces 2014 Third Quarter Results

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CALGARY, ALBERTA--(Marketwired - Nov 5, 2014) - Long Run Exploration Ltd. (TSX:LRE) ("Long Run" or the "Company") is pleased to announce our third quarter financial and operational results. Long Run is focused on providing long-term value to shareholders through a sustainable dividend model. Throughout the commodity price cycle, we remain committed to protecting our dividend through active portfolio management, proactive hedging and a focus on cost efficiencies.

THIRD QUARTER 2014 HIGHLIGHTS

- Generated funds flow from operations of $80.2 million, a 29% increase over $62.3 million in the third quarter of 2013.
- Averaged 34,795 Boe/d of production, a 38% increase from 25,293 Boe/d in the third quarter of 2013. Third party restrictions and plant outages reduced production by approximately 1,600 Boe/d in the quarter.
- Declared monthly dividends of $0.035 per share, totaling $0.11 per share for the quarter, or $18.8 million. Maintained a sustainable basic payout ratio of 23%, without the assistance of a dividend reinvestment plan.
- Executed our focused development program, drilling 21 net wells, with a 100% success rate. Capital expenditures totaled $75.8 million, including facility costs spent to provide flexibility for future development and reduce reliance on third party processing. Expenditures were concentrated in our Peace River Montney, Deep Basin Cardium and Redwater Viking areas.
- Successfully closed and integrated the Crocotta Energy Inc. ("Crocotta") acquisition on August 6, 2014 for $346.9 million. This acquisition enhances Long Run's new Deep Basin core area, established through our initial asset acquisition on May 30, 2014 (the "Deep Basin Acquisition"). This exciting new core area, focused on the liquids-rich Cardium and Bluesky formations, provides exploration and development opportunities and adds strategic ownership of gathering and processing infrastructure. As consideration for Crocotta, Long Run issued 43.8 million Common Shares and assumed $115.5 million of net debt. Our credit facility borrowing base was increased by $120 million to $695 million upon closing of the transaction.

SUMMARY OF QUARTERLY RESULTS

	Three months ended Sept 30,			Nine months ended Sept 30,		
($000s, except per share amounts or unless otherwise noted)	2014	2013	% Change	2014	2013	% Change
Funds flow from operations (1)	80,199	62,304	29	223,678	174,175	28
Per share, basic (1)	0.45	0.50	(10)	1.54	1.39	11
Per share, diluted (1)	0.45	0.50	(10)	1.53	1.39	10
Net earnings	40,644	9,524	327	68,257	29,796	129
Per share, basic	0.23	0.08	188	0.47	0.24	96
Per share, diluted	0.23	0.08	188	0.47	0.24	96
Dividends declared	18,781	-	-	45,888	-	-
Dividends per share	0.11	-	-	0.31	-	-
Payout ratio (1)	23 %	-	-	21 %	-	-
Capital expenditures	75,759	93,137	(19)	233,938	234,934	0
Net acquisitions (divestitures) (2)	(8,147)	3,331	(345)	(26,878)	22,434	(220)
Bank loan	632,377			632,377		
Net debt (1)	718,981			718,981		

Production						
Oil *(Bbl/d)*	13,071	11,709	12	12,745	11,432	11
Natural gas liquids *(Bbl/d)*	3,031	1,478	105	2,223	1,282	73
Natural gas *(Mcf/d)*	112,161	72,634	54	86,414	70,422	23
Total *(Boe/d)*	34,795	25,293	38	29,370	24,451	20
Prices, including derivatives						
Oil *($/Bbl)*	84.66	87.44	(3)	86.67	80.85	7
Natural gas liquids *($/Bbl)*	57.98	76.05	(24)	69.28	73.74	(6)
Natural gas *($/Mcf)*	4.23	3.23	31	4.68	3.58	31
Total *($/Boe)*	50.75	54.29	(7)	56.80	52.32	9
Operating netback *($/Boe)*	31.41	30.74	2	34.03	30.46	12
Corporate netback *($/Boe)*	25.13	26.87	(6)	28.00	26.14	7
Share Information (000s)						
Shares outstanding, end of period	193,498	125,620	54	193,498	125,620	54
Weighted average shares outstanding - basic	176,318	125,620	40	145,632	125,620	16
Weighted average shares outstanding - diluted	177,003	125,620	41	146,511	125,620	17

(1)See "Non-GAAP Measures" section.
(2)Excludes $228.8 million for the Deep Basin Acquisition on May 30, 2014.

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

Q3 2014 FINANCIAL UPDATE

Funds flow from operations for the third quarter 2014 totaled $80.2 million, an increase of 29% from $62.3 million in the third quarter of 2013. The increased funds flow was attributable to higher production volumes and a higher natural gas price, partially offset by lower liquids prices, higher royalties and operating costs associated with the increase in production and higher general and administration expense due to Crocotta transaction costs. Funds flow from operations in the third quarter of 2014 includes 1.8 months of operating results from the Crocotta assets acquired on August 6, 2014.

Net earnings for the third quarter of 2014 were $40.6 million, an increase of $31.1 million from $9.5 million in the third quarter of 2013. The increase in net earnings resulted from the increased funds flow from operations and a higher unrealized gain on oil derivatives, which were partially offset by higher depletion expense related to the increase in production volumes.

Long Run's operating netback of $31.41/Boe and corporate netback of $25.13/Boe reflect higher natural gas prices, lower operating costs and lower transportation costs, partially offset by lower oil prices compared to the third quarter of 2013. Long Run's natural gas price, including derivatives, of $4.23/Mcf increased from $3.23/Mcf in the third quarter of 2013 due to stronger AECO benchmark pricing. Operating costs averaged $11.63/Boe, an improvement of $2.82/Boe over third quarter of 2013, reflecting the addition of the lower cost Deep Basin assets. Long Run's oil price, including derivatives, of $84.66/Bbl compares to $87.44/Bbl in the third quarter of 2013, reflecting lower West Texas Intermediate benchmark pricing, which was partially offset by a stronger U.S. dollar. Long Run's corporate netback includes $1.50/Boe ($4.8 million) of general and administration expense related to the Crocotta transaction costs. Fourth quarter 2014 operating costs are expected to be approximately $12.75/Boe as we move into preparation for winter operations and cold winter weather operating conditions. Forecast general and administration expense should average approximately $2.50/Boe in the fourth quarter of 2014.

Long Run's net debt of $718.9 million at September 30, 2014 increased from $452.1 million at December 31, 2013, resulting from funding a portion of the Deep Basin and Crocotta acquisitions from debt. Net debt to funds flow from operations at September 30, 2014 was 2.2 times, reflecting an annualized funds flow from operations which only included 7.8 months of the Crocotta acquisition's financial results. On a pro-forma basis, assuming 12 months of Crocotta financial results, Long Run's net debt to funds flow was 2.0 times, consistent with the ratio at December 31, 2013.

Q3 2014 OPERATIONAL UPDATE

Third quarter production averaged 34,795 Boe/d (46% oil and NGLs), an increase of 9,502 Boe/d from 25,293 Boe/d (52% oil and NGLs) in the third quarter of 2013. The production increase resulted from development drilling over the past year, the Deep Basin asset acquisition on May 30, 2014 and the nearly two month impact of our Crocotta acquisition. The Deep Basin acquisitions added approximately 8,900 Boe/d of production in the quarter, with 4,000 Boe/d attributable to the Crocotta assets. During the quarter, third party restrictions and plant outages reduced production by approximately 1,600 Boe/d. Third party outages were concentrated in the Deep Basin at Kakwa, Wapiti and Pine Creek. The completion of the facility expansion at Kakwa in early 2015, where Long Run will have firm capacity, will significantly reduce unplanned restrictions in the Deep Basin area.

During the third quarter, we focused on operational execution, integration of our new core area and the disposition of minor properties. Capital expenditures of $75.8 million were incurred, including facility costs spent to provide flexibility for future development and reduce reliance on third party processing. The active management of our portfolio of assets resulted in net divestitures of $8.1 million in the quarter.

In Peace River, Long Run was active, drilling 12.0 net horizontal Montney oil wells, with total capital expenditures of $40.3 million. Well results from our Montney drilling program were consistent with our expectations. Initial 30-day production rates averaged approximately 195 Boe/d per well, which is in-line with our forecasted Montney type-curve rates. Production in Peace River for the third quarter of 2014 averaged 13,972 Boe/d, consisting of 7,782 Bbl/d of oil and NGLs and 37.1 MMcf/d of natural gas.

Deep Basin capital expenditures totaled $14.2 million, including the drilling of our first three horizontal Cardium liquids-rich natural gas wells. A two-well pad in the Pine Creek area was drilled late in the third quarter. These wells came on production during the second week of October and over their first two weeks have averaged approximately 470 Boe/d per well. This exceeds our type-curve expectation for Cardium wells in this area by approximately 15 percent. The third Pine Creek well was drilled as a step out test of the Cardium potential on our northern-most lands acquired through the Deep Basin asset acquisition. This well proves up the Cardium prospectivity beyond the previously delineated trend. Production in the Deep Basin for the third quarter of 2014 averaged 7,859 Boe/d, consisting of 2,218 Bbl/d of oil and NGLs and 33.8 MMcf/d of natural gas.

At Redwater, 6.0 net horizontal Viking wells were drilled during the quarter, at a cost of $20.8 million. All 6.0 wells were on-stream and producing by the end of September with an average initial 30-day production rate of 75 Boe/d. This initial rate is above our Viking type-curve expectations. These wells often clean up and improve during their initial production phase. For the month of October, these six wells averaged over 500 Boe/d (84 Boe/d per well). Production in Redwater for the third quarter of 2014 averaged 8,311 Boe/d, consisting of 5,325 Bbl/d of oil and NGLs and 17.9 MMcf/d of natural gas.

The timeline of our ongoing Enhanced Oil Recovery ("EOR") projects remains intact. Currently we are injecting water for pressure maintenance and enhanced recovery at our two major fields: the Peace River Montney and the Redwater Viking. EOR projects initiated in 2013 in Peace River at Normandville and Girouxville continue to operate successfully to date. We expect to expand both of these projects during the fourth quarter of 2014 with patterned waterflood pilots, utilizing multiple horizontal injectors and producers. These expanded pilots form the basis from which EOR may be implemented across the rest of these fields, beginning late in 2015 or in 2016.

In the Redwater Viking, a second EOR pilot project is planned to be implemented in the fourth quarter of 2014. This will complement the first EOR project, which was initiated during 2013, and will provide additional technical data which will be used to evaluate field-wide EOR implementation, expected to start in late 2015.

OUTLOOK

Long Run is focused on providing long-term value to shareholders through a sustainable dividend model. Controlled exploitation of our core assets and strategic acquisitions form the basis of our goal of funding both net capital expenditures and dividends from funds flow from operations. Throughout the commodity price cycle, we remain committed to protecting our dividend through active portfolio management, proactive hedging and a focus on cost efficiencies.

We are updating our 2014 guidance to account for forecasted third party outages and lower oil prices as discussed further below. In looking ahead to 2015, we are reviewing our capital spending plans under a variety of commodity price environments, with an aim to preserve our current dividend and maintain fourth quarter 2014 production through 2015. Long Run plans to release our 2015 guidance in mid-December. For 2015, Long Run has placed hedges on approximately 30% of production balanced between oil and natural gas. Approximately 40% of our liquids production is hedged for the first quarter of 2015, which will assist to support a strong capital program. Long Run will endeavor to add additional hedges during 2015 to increase overall hedged volumes into the range of 35 to 50%.

2014 Guidance

In the third quarter of 2014, longer than scheduled third party plant turnarounds, third party pipeline repairs and third party unscheduled maintenance reduced Long Run's average daily production by approximately 1,600 Boe/d. These outages included an extended turnaround at a third party operated gas processing plant at Edson (Pine Creek), third party plant capacity restrictions and an extended turnaround at a third party operated gas plant at Kakwa, and unscheduled third party pipeline repairs and pipeline restrictions resulting in reduced nominations at Wapiti. We anticipate that ongoing third party restrictions at both Kakwa and Wapiti, as well as unscheduled third party sales gas pipeline repairs at Cherhill, will impact production volumes by approximately 1,300 Boe/d on average in the fourth quarter. The completion of the facility expansion at Kakwa in early 2015, where Long Run will have firm capacity, will significantly reduce the unplanned restrictions in the Deep Basin area.

As a result of the outages and projected fourth quarter downtime we have revised our 2014 production guidance from 32,100 Boe/d to 31,400 Boe/d. Excluding the third party plant outages, we expect Long Run would have reached our 2014 annual production guidance. In order to achieve our updated guidance, production for the fourth quarter of 2014 should average 37,400 Boe/d. Our October 2014 production averaged approximately 38,250 Boe/d, net of third party outages. Current production levels are on track to meet updated guidance.

Using our revised production guidance and including the impact of current oil pricing we anticipate that our funds flow from operations in 2014 will now be $300 million, down from our initial estimate of $320 million. The funds flow revision of $20 million includes $13 million due to the third party production outages and $7 million for lower achieved and forecasted oil prices. As a result of Long Run's proactive hedge program, which took into account our recent acquisitions, approximately 65% of our fourth quarter 2014 liquids production is hedged, which has limited the impact of the lower oil price.

We have moved forward facility expansion projects at Peace River and the Deep Basin from 2015 into late 2014. These projects provide increased operational flexibility in planning future development and reduce reliance on third parties. The impact of the accelerated funding, as well as additional well servicing and recompletion costs, will increase 2014 development capital by $35 million to $285 million. The additional 2014 development capital will be funded by the net divestitures of minor properties, of which $26.9 million has been received as at September 30, 2014. Long Run will continue to focus on selective dispositions as part of our ongoing capital management and portfolio rationalization process.

Development capital by area for 2014 is expected to be $135 million in the Peace River Montney (44 net wells), $80 million in the Redwater Viking (45 net wells) and $55 million in the Deep Basin Cardium (11 net wells).

2014 Updated Guidance (at November 5, 2014) (1)(2)	
Production average	31,400 Boe/d
Average production per share	0.072 Boe
% oil and NGLs	49%
Funds flow from operations (3)	$300 million
Funds flow from operations per share (3)	$1.89
Development capital	$285 million
Net capital expenditures (4)	$259 million
Dividend	$66 million
Dividend per share (annual)	$0.4125
Basic payout ratio	22%
Total sustainability ratio	108%

(1) *2014 updated guidance is based on the following assumptions for the fourth quarter of 2014: WTI US$85.00/Bbl; AECO $4.00/Mcf; FX USD/CDN 1.1. Previous Guidance issued on June 12, 2014 was based on the following assumptions for the second half of 2014: WTI US$95.00/Bbl; AECO $4.22/Mcf; FX USD/CDN 1.1*

(2) *2014 updated guidance 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.*

(4) *Capital expenditures (development capital) net of acquisitions and divestitures, excluding the Deep Basin and Crocotta acquisitions. Net acquisitions and divestitures are as at September 30, 2014.*

Long Run is a Calgary-based intermediate oil and natural gas company focused on light oil development and exploration in western Canada. For further information about Long Run, visit the Company's website at www.longrunexploration.com.

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 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. Basic 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. Total 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 information on how these measures are calculated in the Management's Discussion and Analysis dated November 5, 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.

Netbacks

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 expense and divided by total production.

Initial Production Rates

Initial production rates disclosed herein may not necessarily be indicative of long-term performance or ultimate recovery.

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, 2014 updated guidance including 2014 average production and production per share, commodity mix, funds flow from operations and funds flow from operations per share, development capital, capital expenditures, dividends and dividends per share, basic payout ratio and total sustainability ratio; our capital expenditure program and development capital, nature of expenditures and method of funding thereof; timing of expansion and implementation of EOR; expected fourth quarter 2014 average production, operating costs and general and administration expense; expectation that planned facilities expansions at Kakwa will reduce unplanned restrictions; timing of completion of facilities; expected effects of oil pricing on sustainability; expected third party outages in the fourth quarter 2014 and expected impact on production; expected ability to preserve current dividend and maintain production; and expected timing of release of 2015 guidance. 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, basic payout ratio and sustainability ratio based on assumptions provided herein and other assumptions utilized in arriving at Long Run's capital budget. To the extent such estimates constitute a financial outlook, they were approved by management on November 5, 2014 and are included herein to provide readers with an understanding of the effects of the anticipated funds available to Long Run to fund its capital expenditures, dividends and the effects thereof 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 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	MMcf/d	Million cubic feet per day
Boe	barrels of oil equivalent		
Boe/d	barrels of oil equivalent per day		
Liquids	light oil, heavy oil, and NGLs		

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