2014 Annual Report

Transformation. Exploration. Evolution.

LEUCROTTA
EXPLORATION INC.

Q4 2014 FINANCIAL AND OPERATING RESULTS

HIGHLIGHTS

- Commenced active oil and natural gas operations on August 6, 2014 as a result of the closing of an arrangement agreement between Leucrotta, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") (the "Arrangement") whereby Crocotta transferred its oil and natural gas assets located in British Columbia ("BC Assets") to Leucrotta. Long Run acquired all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange for Long Run common shares, Crocotta transferred the BC Assets to Leucrotta and each Crocotta shareholder received 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant (one whole warrant being an "Arrangement Warrant").
- Raised $93.3 million in Q3 2014 by issuing 54.9 million common shares at a price of $1.70 per common share through a bought deal private placement, an insider private placement and the exercise of Arrangement Warrants.
- Averaged 2,168 boe/d of production during 2014 (Q4 2014 averaged 2,538 boe/d).
- Acquired 111,100 gross (99,000 net) acres of Montney rights during 2014 in exchange for $51.3 million cash and 4.7 million common shares.
- Exited 2014 with working capital of $25.0 million.
- Entered into a $25.0 million revolving operating demand loan credit facility with a Canadian chartered bank during Q3 2014.

The financial and operating results below present the historic financial position, results of operations and cash flows of the transferred BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control (carve-out financial statements). The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement.

FINANCIAL RESULTS

	Three Months Ended December 31			Year Ended December 31		
($000s, except per share amounts)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and natural gas sales	**6,801**	5,062	34	**29,322**	12,509	134
Funds from operations [(1)]	**2,995**	2,430	23	**15,210**	3,571	326
Per share - basic and diluted	**0.02**	0.02	-	**0.12**	0.03	300
Net earnings (loss)	**(171)**	333	(151)	**3,090**	(1,276)	342
Per share - basic and diluted	**-**	-	-	**0.02**	(0.01)	300
Capital expenditures and acquisitions	**35,234**	13,962	152	**102,868**	39,854	158
Working capital (deficiency)				**25,003**	(1,300)	2,023
Common shares outstanding (000s)						
Weighted average - basic and diluted	**165,227**	105,613	56	**126,329**	105,613	20
End of period - basic				**165,227**	-	na
End of period - diluted				**185,049**	-	na

OPERATING RESULTS [2]	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Daily production						
Oil and NGLs (bbls/d)	**486**	305	59	**376**	136	176
Natural gas (mcf/d)	**12,309**	8,387	47	**10,750**	6,538	64
Oil equivalent (boe/d)	**2,538**	1,703	49	**2,168**	1,226	77
Revenue						
Oil and NGLs ($/bbl)	**62.08**	74.11	(16)	**78.98**	79.47	(1)
Natural gas ($/mcf)	**3.55**	3.86	(8)	**4.71**	3.59	31
Oil equivalent ($/boe)	**29.13**	32.31	(10)	**37.06**	27.96	33
Royalties						
Oil and NGLs ($/bbl)	**6.66**	0.54	1,133	**4.14**	0.30	1,280
Natural gas ($/mcf)	**0.53**	0.03	1,667	**0.31**	0.01	3,000
Oil equivalent ($/boe)	**3.84**	0.23	1,570	**2.24**	0.08	2,700
Production expenses						
Oil and NGLs ($/bbl)	**6.61**	6.11	8	**6.73**	7.74	(13)
Natural gas ($/mcf)	**1.10**	1.02	8	**1.12**	1.48	(24)
Oil equivalent ($/boe)	**6.61**	6.11	8	**6.72**	8.74	(23)
Transportation expenses						
Oil and NGLs ($/bbl)	**3.51**	2.19	60	**3.43**	4.98	(31)
Natural gas ($/mcf)	**0.24**	0.12	100	**0.21**	0.20	5
Oil equivalent ($/boe)	**1.85**	1.00	85	**1.63**	1.62	1
Operating netback [1]						
Oil and NGLs ($/bbl)	**45.30**	65.27	(31)	**64.68**	66.45	(3)
Natural gas ($/mcf)	**1.68**	2.69	(38)	**3.07**	1.90	62
Oil equivalent ($/boe)	**16.83**	24.97	(33)	**26.47**	17.52	51
Depletion and depreciation ($/boe)	**(8.02)**	(10.05)	(20)	**(10.40)**	(9.93)	5
General and administrative expenses ($/boe)	**(4.73)**	(4.81)	(2)	**(4.27)**	(3.64)	17
Share based compensation ($/boe)	**(4.16)**	(1.87)	122	**(2.59)**	(1.34)	93
Finance expenses ($/boe)	**(0.24)**	(4.73)	(95)	**(3.31)**	(5.94)	(44)
Finance income ($/boe)	**0.80**	-	100	**0.24**	-	100
Deferred tax (expense) recovery ($/boe)	**(1.21)**	(1.39)	(13)	**(2.23)**	0.48	(565)
Net earnings (loss) ($/boe)	**(0.73)**	2.12	134	**3.91**	(2.85)	237

(1) Funds from operations, funds from operations per share and operating netback do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures used by other companies. Please refer to the Non-GAAP Measures section in the MD&A for more details and the Funds from Operations section in the MD&A for a reconciliation from cash flow from operating activities.

(2) "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

PRESIDENT'S MESSAGE [(1)]

On August 6, 2014 Leucrotta became a stand-alone entity with the mandate to further its predecessor's (Crocotta's) development of its highly prolific and liquids-rich Montney assets located in Northeast British Columbia.

During Q4 2014, Leucrotta commenced the drilling of its large Montney block of land in the Dawson-Sunrise area of Northeast British Columbia. Two step-out wells were drilled with one encountering liquids-rich gas and the other encountering light oil. As previously announced, the IP30 rates of the wells were 447 boepd (61% oil and liquids) and 442 boepd (37% oil and liquids), respectively. The oil well was of particular significance given estimated oil in place of 26 million barrels per section and success of other operators in the area developing Montney oil. While further delineation is needed to determine the extent of the oil pool, such accumulations are generally over a larger area and could be a very material oil resource play for Leucrotta.

The original Lower Montney discovery well at Doe (B4-19) continues to outperform and was upgraded to 1.1 million boes in the latest independent reserve report. The well has been on production for over a year and is still producing over 600 boepd.

Subsequent to year-end, Leucrotta also tested its horizontal Baldonnel oil well at Stoddart. The Baldonnel zone is a high water cut carbonate zone analogous to the Mississippian zone in Southeast Saskatchewan and is estimated to have over 15 million barrels of oil in place per section. The well was producing over 1,500 barrels of water and 315 barrels of light oil at a low draw-down on the well. The Company is very encouraged by this rate and will construct a battery and water disposal to produce the well. Leucrotta has approximately 45 sections of land prospective for Baldonnel oil and if successful, would drill 4 to 8 wells per section to develop this potentially large light oil resource.

As at December 31, 2014 Leucrotta had $25 million of cash and positive working capital and a $25 million undrawn bank credit facility. Leucrotta will be conservative with its go forward spending and will watch for stabilization in the commodity market before it invests material amounts of capital in the future. The Company expects that it will commence development drilling at Doe offsetting its B4-19 well in the fall and work towards filling its 25 mmcf/d sweet gas plant. Other than development wells at Doe, Leucrotta will spend capital to tie-in the Montney oil well, set up the Stoddart facilities and recomplete existing wells in the Montney. Currently, Leucrotta does not have any plans to draw on its bank credit facility in 2015.

Leucrotta's business plan is to increase production and cash flow through development drilling at Doe and slowly delineate its large resource base in the Montney with a combination of recompletions, vertical drills and horizontal drills.

(1) Information Regarding Oil and Gas Volumes
Well test results are not necessarily indicative of long-term performance or of ultimate recovery.

OOIP and OGIP are not a defined terms within National Instrument 51-101 and are considered equivalent to Discovered Petroleum Initially In Place ("DPIIP"). DPIIP is defined in the Canadian Oil and Gas Evaluation Handbook ("COGEH") as the quantity of hydrocarbons that are estimated to be in place within a known accumulation. DPIIP is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. There is no certainty that it will be economically viable or technically feasible to produce any portion of this DPIIP except for those portions identified as proved or probable reserves.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

April 27, 2015

The MD&A should be read in conjunction with the audited financial statements and related notes for the years ended December 31, 2014 and 2013. The audited financial statements and financial data contained in the MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") in Canadian currency (except where noted as being in another currency).

DESCRIPTION OF BUSINESS

Leucrotta Exploration Inc. ("Leucrotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "LXE".

FREQUENTLY RECURRING TERMS

The Company uses the following frequently recurring industry terms in the MD&A: "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

NON-GAAP MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A contains the terms "funds from operations", "funds from operations per share", and "operating netback" which do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance.

Management uses funds from operations to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and to repay debt. Funds from operations is a non-GAAP measure and has been defined by the Company as net earnings (loss) plus non-cash items (depletion and depreciation, share based compensation, non-cash finance expenses, and deferred income taxes) and excludes the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents funds from operations per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of earnings per share. Funds from operations is reconciled from cash flow from operating activities under the heading "Funds from Operations".

Management considers operating netback an important measure as it demonstrates its profitability relative to current commodity prices. Operating netback, which is calculated as average unit sales price less royalties, production expenses, and transportation expenses, represents the cash margin for every barrel of oil equivalent sold. Operating netback per boe is reconciled to net earnings per boe under the heading "Operating Netback".

COMMON-CONTROL TRANSACTION

On June 12, 2014, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") entered into an arrangement agreement (the "Arrangement") whereby Long Run would acquire all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange for Long Run common shares, Crocotta transferred its oil and natural gas assets located in British Columbia, Canada ("BC Assets") to Leucrotta and each Crocotta shareholder received 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant (one whole warrant being an "Arrangement Warrant"). On August 6, 2014 the holders of common shares of Crocotta approved the Arrangement.

In addition to the BC assets being transferred from Crocotta to Leucrotta, any debt of Crocotta in excess of an aggregate of $100 million, transaction costs in excess of $5.0 million, and certain approved capital expenditures were also transferred. The amount of debt transferred from Crocotta was $15.3 million. Leucrotta commenced active oil and natural gas operations with the transfer of the BC Assets upon close of the Arrangement on August 6, 2014.

Since the shareholders of Leucrotta and Crocotta upon the close of the Arrangement were the same, this transaction was deemed a common-control transaction. Financial and Operational Results below present the historic financial position, results of operations and cash flows of Crocotta's BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control. The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement.

PROPERTY AND LAND ACQUISITIONS

During the year ended December 31, 2014, the Company acquired 111,100 gross (99,000 net) acres of Montney rights in exchange for $51.3 million cash and 4.7 million common shares through various property and land acquisitions. During the three months ended December 31, 2014, the Company acquired 10,400 gross (10,100 net) acres of Montney rights in exchange for $7.9 million cash. In conjunction with the undeveloped land, the Company inherited some non-core production of approximately 150 boe/d and decommissioning obligations during the third quarter of 2014.

SUMMARY OF FINANCIAL RESULTS

	Three Months Ended December 31			Year Ended December 31		
($000s, except per share amounts)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and natural gas sales	**6,801**	5,062	34	**29,322**	12,509	134
Funds from operations	**2,995**	2,430	23	**15,210**	3,571	326
Per share - basic and diluted	**0.02**	0.02	-	**0.12**	0.03	300
Net earnings (loss)	**(171)**	333	(151)	**3,090**	(1,276)	342
Per share - basic and diluted	**-**	-	-	**0.02**	(0.01)	300
Total assets				**242,784**	88,164	175
Total long-term liabilities				**7,286**	1,546	371
Working capital (deficiency)				**25,003**	(1,300)	2,023

The Company has experienced significant growth in oil and natural gas sales and funds from operations for the three months and year ended December 31, 2014 over the comparative periods in 2013. Continued successful capital activity during the past year in Northeast BC combined with an increase in natural gas prices for most of 2014 and a decrease in production expenses led to the increased revenue and funds from operations. These same factors led to an increase in net earnings in 2014 from 2013; however increased share based compensation due to the issuance of warrants resulted in a net loss for the fourth quarter of 2014 compared to net earnings in the fourth quarter of 2013. Total assets, long-term liabilities and working capital have also increased year-over-year as a result of significant capital activity during the past year as well as raising $93.3 million through share issuances.

PRODUCTION	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	**486**	305	59	**376**	136	176
Natural gas (mcf/d)	**12,309**	8,387	47	**10,750**	6,538	64
Combined (boe/d)	**2,538**	1,703	49	**2,168**	1,226	77

Daily production for the three months ended December 31, 2014 increased 49% to 2,538 boe/d compared to 1,703 boe/d for the comparative period in 2013. For the year, daily production increased 77% to 2,168 boe/d in 2014 compared to 1,226 boe/d in 2013. Compared to the previous quarter, daily production increased 5% from 2,416 boe/d. The significant increase in production for these time periods was mainly due to successful drilling activity in Northeast BC during the past year.

Leucrotta's production profile for the fourth quarter of 2014 was comprised of 81% natural gas and 19% oil and NGLs.

REVENUE	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and NGLs	**2,777**	2,082	33	**10,850**	3,944	175
Natural gas	**4,024**	2,980	35	**18,472**	8,565	116
Total	**6,801**	5,062	34	**29,322**	12,509	134
Average Sales Price						
Oil and NGLs ($/bbl)	**62.08**	74.11	(16)	**78.98**	79.47	(1)
Natural gas ($/mcf)	**3.55**	3.86	(8)	**4.71**	3.59	31
Combined ($/boe)	**29.13**	32.31	(10)	**37.06**	27.96	33

Revenue totaled $6.8 million for the fourth quarter of 2014, up 34% from $5.1 million in the comparative period. For the year ended December 31, 2014, revenue totaled $29.3 million, an increase of 134% from $12.5 million for 2013. The increase in revenue was due to significant increases in production combined with increases in natural gas prices for the first nine months of 2014.

The following table outlines the Company's realized wellhead prices and industry benchmarks:

Commodity Pricing	Three Months December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs						
Corporate price ($CDN/bbl)	**62.08**	74.11	(16)	**78.98**	79.47	(1)
Canadian light sweet ($CDN/bbl)	**74.37**	86.38	(14)	**93.99**	93.27	1
West Texas Intermediate ($US/bbl)	**73.15**	97.98	(25)	**93.00**	97.46	(5)
Natural gas						
Corporate price ($CDN/mcf)	**3.55**	3.86	(8)	**4.71**	3.59	31
AECO price ($CDN/mcf)	**3.63**	3.52	3	**4.50**	3.13	44
Exchange rate						
CDN/US dollar average exchange rate	**0.8802**	0.9528	(8)	**0.9100**	0.9712	(6)

Differences between corporate and benchmark prices can be the result of quality differences (higher or lower API oil and higher or lower heat content natural gas), sour content, the mix of oil and NGLs, and various other factors. Leucrotta's differences are mainly the result of a higher proportion of lower priced NGLs and higher heat content natural gas production that is priced higher than AECO reference prices. The Company's corporate average oil and NGLs prices were 83.5% and 84.0% of Canadian light sweet prices for the three months and year ended December 31, 2014, respectively, consistent with 85.8% and 85.2% for the comparative periods in 2013. Corporate average natural gas prices were 97.8% and 104.7% of AECO price for the three months and year ended December 31, 2014, respectively, compared to 109.7% and 114.7% for the comparative periods in 2013. The decrease in the Company's corporate natural gas price compared to AECO was due to new marketing contracts starting in the fourth quarter of 2014 of which a portion of the Company's natural gas sales are priced off indexes other than AECO and were significantly lower than AECO for the fourth quarter of 2014 although this difference has shrunk into 2015.

Future prices received from the sale of the products may fluctuate as a result of market factors. In addition, the Company may enter into commodity price contracts to manage future cash flows. The Company does not currently have any commodity price contracts outstanding.

ROYALTIES	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and NGLs	**298**	15	1,887	**568**	15	3,687
Natural gas	**599**	21	2,752	**1,207**	21	5,648
Total	**897**	36	2,392	**1,775**	36	4,831
Average Royalty Rate (% of sales)						
Oil and NGLs	**10.7**	0.7	1,429	**5.2**	0.4	1,200
Natural gas	**14.9**	0.7	2,029	**6.5**	0.2	3,150
Combined	**13.2**	0.7	1,786	**6.1**	0.3	1,933

The Company pays royalties to provincial governments (Crown), freeholders, which may be individuals or companies, and other oil and gas companies that own surface or mineral rights. Crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown. The provincial government has also enacted various royalty incentive programs that are available for wells that meet certain criteria, such as natural gas deep drilling, which can result in fluctuations in royalty rates.

For the three months and year ended December 31, 2014, oil, NGLs, and natural gas royalties totaled $0.9 million (13.2% of revenue) and $1.8 million (6.1% of revenue). Royalties have increased from almost $nil over the prior comparative periods due to BC summer drilling credits and BC deep gas royalty credits being used up as revenue is generated from producing wells associated with the credits.

PRODUCTION EXPENSES	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)	**6.61**	6.11	8	**6.73**	7.74	(13)
Natural gas ($/mcf)	**1.10**	1.02	8	**1.12**	1.48	(24)
Combined ($/boe)	**6.61**	6.11	8	**6.72**	8.74	(23)

Per unit production expenses for the three months and year ended December 31, 2014 were $6.61/boe and $6.72/boe, respectively, compared to $6.11/boe and $8.74/boe for the comparative periods ended December 31, 2013. The Company reduced production expenses in 2014 from 2013 by expanding its infrastructure during the third quarter of 2013 and transitioning to new marketing arrangements for its natural gas and NGLs in September 2013.

Through a property acquisition during September 2014, the Company added approximately 150 boe/d of non-core oil and natural gas production. This non-core property has higher production expenses and therefore production expenses for the Company increased for the 3 months ended December 31, 2014 compared to the same period in 2013.

TRANSPORTATION EXPENSES	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)	**3.51**	2.19	60	**3.43**	4.98	(31)
Natural gas ($/mcf)	**0.24**	0.12	100	**0.21**	0.20	5
Combined ($/boe)	**1.85**	1.00	85	**1.63**	1.62	1

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. Transportation costs increased to $1.85/boe for the quarter ended December 31, 2014 compared to $1.00/boe for the comparative quarter ended December 31, 2013. The increase was mainly due to higher transportation fees charged by natural gas purchasers starting in November 2014 and also higher transportation costs associated with production from the properties acquired during the third quarter of 2014. For the year, transportation expenses were consistent at $1.63/boe in 2014 compared to $1.62/boe in 2013.

OPERATING NETBACK	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)						
Revenue	**62.08**	74.11	(16)	**78.98**	79.47	(1)
Royalties	**(6.66)**	(0.54)	1,133	**(4.14)**	(0.30)	1,280
Production expenses	**(6.61)**	(6.11)	8	**(6.73)**	(7.74)	(13)
Transportation expenses	**(3.51)**	(2.19)	60	**(3.43)**	(4.98)	(31)
Operating netback	**45.30**	65.27	(31)	**64.68**	66.45	(3)
Natural gas ($/mcf)						
Revenue	**3.55**	3.86	(8)	**4.71**	3.59	31
Royalties	**(0.53)**	(0.03)	1,667	**(0.31)**	(0.01)	3,000
Production expenses	**(1.10)**	(1.02)	8	**(1.12)**	(1.48)	(24)
Transportation expenses	**(0.24)**	(0.12)	100	**(0.21)**	(0.20)	5
Operating netback	**1.68**	2.69	(38)	**3.07**	1.90	62
Combined ($/boe)						
Revenue	**29.13**	32.31	(10)	**37.06**	27.96	33
Royalties	**(3.84)**	(0.23)	1,570	**(2.24)**	(0.08)	2,700
Production expenses	**(6.61)**	(6.11)	8	**(6.72)**	(8.74)	(23)
Transportation expenses	**(1.85)**	(1.00)	85	**(1.63)**	(1.62)	1
Operating netback	**16.83**	24.97	(33)	**26.47**	17.52	51

During the fourth quarter of 2014, Leucrotta generated an operating netback of $16.83/boe, down 33% from $24.97/boe for the fourth quarter of 2013. For the year ended December 31, 2014, Leucrotta generated an operating netback of $26.47/boe, up 51% compared to $17.52/boe in 2013. The increase for the year was due to a significant increase in natural gas prices during most of 2014 combined with reduced production expenses partially offset by increased royalties due to wells having used up royalty credits. The fourth quarter of 2014 had a reduced netback as oil, NGL, and natural gas prices started declining in the fourth quarter of 2014 and the fact that royalties increased dramatically as producing wells used up their royalty credits earned when they were first drilled.

The following is a reconciliation of operating netback per boe to net earnings (loss) per boe for the periods noted:

	Three Months Ended December 31			Year Ended December 31		
($/boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating netback (non-GAAP)	**16.83**	24.97	(33)	**26.47**	17.52	51
Depletion and depreciation	**(8.02)**	(10.05)	(20)	**(10.40)**	(9.93)	5
General and administrative expenses	**(4.73)**	(4.81)	(2)	**(4.27)**	(3.64)	17
Share based compensation	**(4.16)**	(1.87)	122	**(2.59)**	(1.34)	93
Finance expenses	**(0.24)**	(4.73)	(95)	**(3.31)**	(5.94)	(44)
Finance income	**0.80**	-	100	**0.24**	-	100
Deferred tax recovery (expense)	**(1.21)**	(1.39)	(13)	**(2.23)**	0.48	(565)
Net earnings (loss) (GAAP)	**(0.73)**	2.12	(134)	**3.91**	(2.85)	237

DEPLETION AND DEPRECIATION	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Depletion and depreciation ($000s)	**1,874**	1,575	19	**8,228**	4,443	85
Depletion and depreciation ($/boe)	**8.02**	10.05	(20)	**10.40**	9.93	5

The Company calculates depletion on property, plant, and equipment based on proved plus probable reserves. Depletion and depreciation for the three months ended December 31, 2014 was $8.02/boe, down 20% from $10.05/boe for the comparative period ended December 31, 2013. For the year, depletion and depreciation was up 5% to $10.40/boe in 2014 from $9.93/boe in 2013. The decrease in the fourth quarter of 2014 was mainly due to a significant increase in proved plus probable reserves at December 31, 2014.

GENERAL AND ADMINISTRATIVE	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
G&A expenses (gross)	**1,388**	919	51	**4,017**	2,122	89
G&A capitalized	**(267)**	(51)	424	**(363)**	(154)	136
G&A recoveries	**(16)**	(114)	(86)	**(278)**	(338)	(18)
G&A expenses (net)	**1,105**	754	47	**3,376**	1,630	107
G&A expenses ($/boe)	**4.73**	4.81	(2)	**4.27**	3.64	17

General and administrative expenses ("G&A") were $4.73/boe and $4.27/boe for the three months and year ended December 31, 2014, respectively, compared to $4.81/boe and $3.64/boe for the three months and ended December 31, 2013. The increase for the year ended December 31, 2014 is due to G&A for prior periods up to August 6, 2014 being allocated to the BC Assets from total Crocotta G&A based on the percentage of capital expenditures related to the BC Assets relative to the overall capital expenditures of Crocotta. Capital expenditures on the BC Assets were significantly lower in prior periods resulting in lower G&A allocations. This allocation is not reflective of the Company's G&A after August 6, 2014.

SHARE BASED COMPENSATION	Three Months Ended December 31			Year Ended December 31		
	2014	2013	% Change	**2014**	2013	% Change
Share based compensation ($000s)	**970**	293	231	**2,046**	601	240
Share based compensation ($/boe)	**4.16**	1.87	122	**2.59**	1.34	93

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus. The fair value of the performance warrants was determined based on a Monte Carlo simulation and the fair value of stock options and purchase warrants was measured based on the Black-Scholes-Merton option-pricing model.

Share based compensation expense increased to $1.0 million ($4.16/boe) for the three months ended December 31, 2014 from $0.3 million ($1.87/boe) in the comparative period. For the year, share based compensation expense increased to $2.0 million ($2.59/boe) in 2014 from $0.6 million ($1.34/boe) in 2013. The significant increase was due to the warrants issued in Q3 2014.

FINANCE EXPENSES	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Interest expense	**16**	729	(98)	**2,542**	2,633	(3)
Accretion of decommissioning obligations	**40**	12	233	**80**	23	248
Finance expenses	**56**	741	(92)	**2,622**	2,656	(1)
Finance expenses ($/boe)	**0.24**	4.73	(95)	**3.31**	5.94	(44)

Interest expense relates to prior periods up to August 6, 2014 before the Company raised cash from share issuances. The amounts were estimated by applying Crocotta's average interest rate on bank debt for each period to the net investment in BC Assets. Equity in the BC Assets is shown as a net investment in place of Shareholders' Equity because a direct ownership by shareholders in the BC Assets did not exist. All excess cash flows are assumed to be distributed to Crocotta and all cash flow deficiencies and capital expenditures are assumed to be funded by Crocotta through the net investment.

Accretion expense has increased with new wells being drilled over the past year and property acquisitions in Q3 2014.

FINANCE INCOME

Finance income totaled $0.2 million for the three months and year ended December 31, 2014. These amounts were $nil for the comparative periods in 2013. Finance income relates to interest earned on cash in the bank.

DEFERRED INCOME TAXES

Deferred income tax expense on earnings before taxes for the three months and year ended December 31, 2014 were $0.3 million and $1.8 million, respectively, compared to deferred income tax on earnings before taxes of $0.2 million for the three months ended December 31, 2013 and deferred income tax recovery on loss before taxes of $0.2 million for year ended December 31, 2013. The deferred income tax expense was larger than expected (recovery was lower than expected) by applying the statutory tax rate to the earnings (loss) before taxes due to non-deductible items such as share based compensation.

Estimated tax pools at December 31, 2014 total approximately $223.0 million (December 31, 2013 - $80.6 million).

FUNDS FROM OPERATIONS

Funds from operations for the three months and year ended December 31, 2014 were $3.0 million ($0.02 per basic and diluted share) and $15.2 million ($0.12 per basic and diluted share), respectively, compared to $2.4 million ($0.02 per basic and diluted share) and $3.6 million ($0.03 per basic and diluted share) for the three months and year ended December 31, 2013. The increases were mainly due to significant increases in revenue which resulted from higher production.

The following is a reconciliation of cash flow from operating activities to funds from operations for the periods noted:

	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Cash flow from operating activities (GAAP)	**2,874**	1,182	143	**15,365**	2,352	553
Add back:						
Change in non-cash working capital	**121**	1,248	(90)	**(155)**	1,219	(113)
Funds from operations (non-GAAP)	**2,995**	2,430	23	**15,210**	3,571	326

NET EARNINGS

The Company had a net loss of $0.2 million ($nil per basic and diluted share) for the three months ended December 31, 2014 compared to net earnings of $0.3 million ($nil per basic and diluted share) for the comparative period in 2013. For the year, the Company had net earnings of $3.1 million ($0.02 per basic and diluted share) in 2014 compared to a net loss of $1.3 million ($0.01 loss per basic and diluted share) in 2013. The net loss in the fourth quarter of 2014 was mainly the result of increased share based compensation from the fourth quarter of 2013. The increase in net earnings for the year ended December 31, 2014 was mainly due to a significant increase in revenue which resulted from higher production and natural gas prices throughout most of the year.

CAPITAL EXPENDITURES	Three Months Ended December 31			Year Ended December 31		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Property acquisitions (1)	**1,166**	-	100	**32,770**	-	100
Land	**6,787**	2,209	207	**28,935**	2,378	1,117
Drilling, completions, and workovers	**17,494**	9,799	79	**25,370**	25,567	(1)
Equipment	**9,630**	1,543	524	**15,164**	11,080	37
Geological and geophysical	**157**	411	(62)	**571**	829	(31)
Office equipment	**-**	-	-	**58**	-	100
Total expenditures	**35,234**	13,962	152	**102,868**	39,854	158

(1) Includes non-cash share consideration of $10.4 million.

For the three months ended December 31, 2014, the Company had capital expenditures of $35.2 million compared to capital expenditures of $14.0 million for the three months ended December 31, 2013. For the year ended December 31, 2014, the Company had capital expenditures of $102.9 million compared to $39.9 million for the comparative period in 2013. The increase in exploration and development expenditures in 2014 was due to an increase in capital activity in the Company's core area of Northeast BC. $61.7 million of the expenditures was for property acquisitions and crown land purchases in 2014. During the year ended December 31, 2014, through property acquisitions and crown land purchases, the Company acquired 111,100 gross (99,000 net) acres of Montney rights in exchange for $51.3 million cash and 4.7 million common shares. In addition to the Montney lands acquired through the property acquisitions, the Company added approximately 150 boe/d of non-core oil and natural gas production and associated decommissioning obligations.

During the year ended December 31, 2014 the Company drilled four net wells. One successful natural gas well, one acid-gas injection well and two wells in the fourth quarter currently being tested and evaluated.

For the prior year, the Company drilled and completed three net successful natural gas wells in the Montney zone and one successful light oil well in the Baldonnel zone that requires water handling facilities and more testing before being brought on production.

Included in equipment expenditures for the year ended December 31, 2014 was $9.0 million related to a gas plant under construction. These costs were excluded from depletion and depreciation. These costs were for the fabrication of certain components of the gas plant and will continue into 2015. Actual installation of the gas plant itself has not commenced. See further discussion below under the heading *"Liquidity Risk"*.

LIQUIDITY AND CAPITAL RESOURCES

Management uses working capital as a measure to assess the Company's financial position and is reconciled as follows:

($000s)	**December 31, 2014**	December 31, 2013	% Change
Current assets	**45,105**	2,460	1,734
Less:			
Current liabilities	**(20,102)**	(3,760)	435
Working capital (deficiency)	**25,003**	(1,300)	2,023

The Company has a $25.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a $100 million fixed and floating charge debenture on the assets of the Company. At December 31, 2014, the Company had outstanding letters of guarantee of $0.2 million which reduce the amount that can be borrowed under the credit facility. The next review of the revolving credit facility by the bank is scheduled on or before May 1, 2015.

At December 31, 2014, the Company had working capital of $25.0 million and $nil had been drawn on the revolving credit facility.

Subsequent to December 31, 2014, the Company deposited $1.0 million in a restricted corporate account to cross-guarantee a margin account for the President of the Company. The President is charged a fee by the Company and the margin account is also restricted until the cross guarantee is removed. The margin account holds $3.7 million of securities of Leucrotta common shares and a margin payable of $984 thousand. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. Throughout late 2014 and into 2015, significant trading restrictions (blackouts) have been placed on all insiders of the Company due to the fact that Leucrotta is a small entity in a large emerging play whereby most operations are material. The cross-guarantee has allowed the President to comply with corporate governance mandates.

On August 6, 2014 Crocotta shareholders approved the Arrangement whereby Long Run acquired all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange for Long Run common shares, Crocotta transferred the BC Assets to Leucrotta and each Crocotta shareholder received 1.0 common share of Leucrotta and 0.2 of an Arrangement Warrant. Each Arrangement Warrant entitled the holder to purchase one common share of Leucrotta at an exercise price of $1.70 per common share expiring 30 days following the close of the Arrangement. 20.8 million of the total 21.1 million were exercised on or prior to September 5, 2014 for proceeds of $35.3 million.

In connection with the Arrangement, on June 12, 2014, the Company closed a bought deal private placement financing through a syndicate of underwriters. The Company issued 26.5 million subscription receipts at a price of $1.70 per subscription receipt for gross proceeds of $45.0 million. In accordance with their terms, each subscription receipt was exchanged for one common share and the proceeds from the sale of subscription receipts were released from escrow on August 15, 2014 after the closing of the Arrangement and confirmation of listing on the TSXV.

Also in connection with the Arrangement, on September 12, 2014, the Company closed a private placement to officers, directors, employees and consultants of the Company. The Company issued 7.65 million units for gross proceeds of $13.0 million comprised of one common share and one purchase warrant. Each purchase warrant entitles the holder to purchase one common share at an exercise price of $2.04 expiring on September 12, 2019 and vest equally over three years.

Through these three share issuances the Company raised a total of $93.3 million.

The ongoing global economic conditions have continued to impact the liquidity in financial and capital markets, restrict access to financing, and cause significant volatility in commodity prices. Despite the economic downturn and financial market volatility, the Company was able to obtain a $25.0 million credit facility and raise $93.3 million in connection with the Arrangement to commence operations with the BC Assets transferred from Crocotta. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity, and debt. Leucrotta's capital program is flexible and can be adjusted as needed based upon the current economic environment. The Company will continue to monitor the economic environment and the possible impact on its business and strategy and will make adjustments as necessary.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at December 31, 2014:

($000s)	Total	Less than One Year	One to Three Years	After Three Years
Accounts payable and accrued liabilities	20,102	20,102	-	-
Decommissioning obligations	7,286	-	-	7,286
Office leases	2,247	583	1,168	496
Plant and equipment	19,602	19,602	-	-
Firm transportation agreements	52,701	739	16,390	35,572
Total contractual obligations	101,938	41,026	17,558	43,354

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. The voting common shares of the Company commenced trading on the TSXV on August 19, 2014 under the symbol "LXE". The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from options, warrants, and other instruments:

(000s)	**December 31, 2014**	April 27, 2015
Voting common shares	**165,227**	165,227
Warrants	**15,150**	15,150
Stock options	**4,672**	4,722
Total	**185,049**	185,099

SUMMARY OF QUARTERLY RESULTS

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Average Daily Production								
Oil and NGLs (bbls/d)	**486**	325	337	357	305	107	69	60
Natural gas (mcf/d)	**12,309**	12,548	9,330	8,753	8,387	5,797	5,565	6,388
Combined (boe/d)	**2,538**	2,416	1,892	1,815	1,703	1,074	996	1,125
($000s, except per share amounts)								
Oil and natural gas sales	**6,801**	7,586	7,110	7,825	5,062	2,231	2,583	2,633
Funds from operations	**2,995**	3,740	3,626	4,848	2,430	(179)	652	669
Per share - basic and diluted	**0.02**	0.03	0.03	0.05	0.02	-	0.01	0.01
Net earnings (loss)	**(171)**	199	887	2,175	333	(1,080)	(222)	(307)
Per share - basic and diluted	**-**	-	0.01	0.02	-	(0.01)	-	-

The Company has experienced significant increases in production over the previous two years stemming from successful drilling activities at Northeast BC and increased natural gas prices. These production and commodity price increases have led to substantial increases in revenue, funds from operations, and net earnings over the previous two years. The decrease in net earnings in the second half of 2014 from the first half of 2014 was mainly due to increased share based compensation resulting from the warrants issued in Q3 2014. Also attributing to higher net earnings in 2014 compared to 2013 was interest expense in prior periods up to the Arrangement on August 6, 2014 and the connected share issuance raises. This resulted in cash for the Company in the second half of 2014 and interest income instead of interest expense.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates, judgments, and assumptions in the application of IFRS that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended. Certain of these estimates may change from period to period resulting in a material impact on the Company's results from operations, financial position, and change in financial position.

RISK ASSESSMENT

The acquisition, exploration, and development of oil and natural gas properties involves many risks common to all participants in the oil and natural gas industry. Leucrotta's exploration and development activities are subject to various business risks such as unstable commodity prices, interest rate and foreign exchange fluctuations, the uncertainty of replacing production and reserves on an economic basis, government regulations, taxes, and safety and environmental concerns. While management realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

Reserves and reserve replacement

The recovery and reserve estimates on Leucrotta's properties are estimates only and the actual reserves may be materially different from that estimated. The estimates of reserve values are based on a number of variables including price forecasts, projected production volumes and future production and capital costs. All of these factors may cause estimates to vary from actual results.

Leucrotta's future oil and natural gas reserves, production, and funds from operations to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Leucrotta's reserves will depend on its abilities to acquire suitable prospects or properties and discover new reserves.

To mitigate this risk, Leucrotta has assembled a team of experienced technical professionals who have expertise operating and exploring in areas the Company has identified as being the most prospective for increasing reserves on an economic basis. To further mitigate reserve replacement risk, Leucrotta has targeted a majority of its prospects in areas which have multi-zone potential, year-round access, and lower drilling costs and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves.

Operational risks

Leucrotta's operations are subject to the risks normally incidental to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells. Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors. As required under the terms of the

Company's credit facility, the Company is subject to an upper limit on fixed price contracts of 65% of its future production up to a three year period.

Foreign exchange risk
The prices received by the Company for the production of crude oil, natural gas, and NGLs are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company currently does not have any foreign exchange contracts in place.

Interest rate risk
The Company is exposed to interest rate risk as it borrows funds at floating interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

Commodity price risk
Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. In addition, the Company may enter into commodity price contracts to manage future cash flows. At December 31, 2014, the Company did not have any commodity price contracts outstanding.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its oil and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount of accounts receivable on the statement of financial position. At December 31, 2014, $3.4 million (100%) of the Company's outstanding accounts receivable were current. During the period ended December 31, 2014, the Company did not deem any outstanding accounts receivable to be uncollectable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company has commitments in 2015 of $19.6 million for plant and equipment related to its gas plant expansion in Northeast BC. These commitments can be funded fully with existing working capital without drawing on the Company's credit facility. With declining commodity prices in Q4 2014, the Company has decided to delay this gas plant project and plans to fulfill its outstanding commitments and complete the fabrication of the components committed to, with the intent to sell each component and create more financial flexibility going forward. The Company has also committed to firm transportation over five years for a total of $52.7 million. With the decline of commodity prices and resulting delay of the gas plant project, it is unlikely the Company fulfills all of the firm transportation commitment itself. The Company plans to mitigate this risk by selling off a portion of this this firm transportation. Transportation is a saleable commodity and there is an available market in the area to transact in the current environment.

Safety and Environmental Risks

The oil and natural gas business is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with oil and natural gas operations. Leucrotta is committed to meeting and exceeding its environmental and safety responsibilities. Leucrotta has implemented an environmental and safety policy that is designed, at a minimum, to comply with current governmental regulations set for the oil and natural gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Environmental and safety updates are presented and discussed at each Board of Directors meeting. Leucrotta maintains adequate insurance commensurate with industry standards to cover reasonable risks and potential liabilities associated with its activities as well as insurance coverage for officers and directors executing their corporate duties. To the knowledge of management, there are no legal proceedings to which Leucrotta is a party or of which any of its property is the subject matter, nor are any such proceedings known to Leucrotta to be contemplated.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “may”, “will”, “should”, “believe”, “intends”, “forecast”, “plans”, “guidance” and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this MD&A contains forward looking statements and information relating to the Company’s risk management program, oil, NGLs, and natural gas production, capital programs, oil, NGLs, and natural gas commodity prices, production expenses and working capital. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities, and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs, and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty, and environmental legislation. The forward-looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company’s expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

ADDITIONAL INFORMATION

Additional information related to the Company may be found on the SEDAR website at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Leucrotta Exploration Inc. is responsible for the preparation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards and include certain estimates that reflect Management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

Management is responsible for the integrity of the financial statements. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

KPMG LLP were appointed by the Company's shareholders to express an audit opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our oil and natural gas reserves. The Audit Committee meets regularly with Management and the Auditors to ensure that Management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of KPMG LLP and reviews their fees. The Auditors have access to the Audit Committee without the presence of Management.

Rob Zakresky
President, Chief Executive Officer and Director

Nolan Chicoine
Vice President, Finance and Chief Financial Officer

Calgary, Canada
April 27, 2015

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Leucrotta Exploration Inc.

We have audited the accompanying carve-out financial statements of Leucrotta Exploration Inc., which comprise the carve-out statements of financial position as at December 31, 2014 and December 31, 2013, the carve-out statements of operations and comprehensive earnings (loss), shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Carve-out Financial Statements

Management of Leucrotta Exploration Inc. is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the carve-out financial position of Leucrotta Exploration Inc. as at December 31, 2014 and December 31, 2013, and its carve-out financial performance and its carve-out cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 to the carve-out financial statements which describes the basis of preparation used in these carve-out financial statements. The carve-out financial statements have been prepared on a carve-out basis and the results do not necessarily reflect what the financial position, results of operations, and cash flows would have been had the assets been included within a separate legal entity, nor are they indicative of future results in respect of the assets as they exist after the completion of the arrangement agreement, which is described in note 1.

KPMG LLP

Chartered Accountants

April 27, 2015
Calgary, Canada

Leucrotta Exploration Inc.
Statements of Financial Position

($000s)	Note	**December 31 2014**	December 31 2013
Assets			
Current assets			
Cash and cash equivalents		**41,329**	-
Accounts receivable		**3,391**	2,302
Prepaid expenses and deposits		**385**	158
		45,105	2,460
Property, plant, and equipment	(6)	**89,853**	62,756
Exploration and evaluation assets	(7)	**96,550**	22,948
Deferred income taxes	(16)	**11,276**	-
		197,679	85,704
		242,784	88,164
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**20,102**	3,760
Decommissioning obligations	(9)	**7,286**	1,546
Deferred income taxes	(16)	**-**	895
		27,388	6,201
Shareholders' Equity			
Shareholders' capital	(11)	**283,587**	-
Contributed surplus		**1,955**	1,824
Net investment in BC assets	(10)	**-**	80,139
Reserve from common-control transaction	(4,10)	**(69,712)**	-
Deficit		**(434)**	-
		215,396	81,963
		242,784	88,164

The accompanying notes are an integral part of these financial statements.

Approved on behalf of the Board of Directors

Rob Zakresky
Director

Tom Medvedic
Director

Leucrotta Exploration Inc.
Statements of Operations and Comprehensive Earnings (loss)

($000s, except per share amounts)	Note	Year Ended December 31 2014	2013
Revenue			
Oil and natural gas sales		**29,322**	12,509
Royalties		**(1,775)**	(36)
		27,547	12,473
Expenses			
Production		**5,318**	3,912
Transportation		**1,288**	727
Depletion and depreciation	(6,7)	**8,228**	4,443
General and administrative		**3,376**	1,630
Share based compensation	(12)	**2,046**	601
Finance income		**(187)**	-
Finance expense	(15)	**2,622**	2,656
		22,691	13,969
Earnings (loss) before taxes		**4,856**	(1,496)
Taxes			
Deferred income tax expense (recovery)	(16)	**1,766**	(220)
Net earnings (loss) and comprehensive earnings (loss)		**3,090**	(1,276)
Net earnings (loss) per share			
Basic and diluted	(13)	**0.02**	(0.01)

The accompanying notes are an integral part of these financial statements.

Leucrotta Exploration Inc.
Statements of Shareholders' Equity

($000s)	Note	Shareholders' Capital	Net investment in BC Assets	Contributed Surplus	Reserve from common-control transaction	Deficit	Total Equity
Balance, January 1, 2013		-	42,590	1,191	-	-	43,781
Net loss		-	(1,276)	-	-	-	(1,276)
Net contributions from Crocotta Energy Inc.	(10)	-	38,825	-	-	-	38,825
Share based compensation		-	-	633	-	-	633
Balance, December 31, 2013		-	80,139	1,824	-	-	81,963
Balance, January 1, 2014		-	80,139	1,824	-	-	81,963
Net earnings (loss)		-	3,524	-	-	(434)	3,090
Net contributions from Crocotta Energy Inc.	(10)	-	28,252	-	-	-	28,252
Deferred tax adjustment	(16)	-	13,259	-	-	-	13,259
Exercise of Crocotta Energy Inc. stock options	(4,11)	2,314	-	(2,314)	-	-	-
Assumption of Crocotta Energy Inc. debt	(4)	-	(15,344)	-	-	-	(15,344)
Issue of share capital	(4,11)	283,253	(109,830)	-	(69,712)	-	103,711
Share issue costs, net of tax		(1,980)	-	-	-	-	(1,980)
Share based compensation		-	-	2,445	-	-	2,445
Balance, December 31, 2014		283,587	-	1,955	(69,712)	(434)	215,396

The accompanying notes are an integral part of these financial statements.

Leucrotta Exploration Inc.
Statements of Cash Flows

($000s)	Note	Year ended December 31 2014	2013
Operating Activities			
Net earnings (loss)		**3,090**	(1,276)
Depletion and depreciation	(6,7)	**8,228**	4,443
Share based compensation	(12)	**2,046**	601
Finance expense	(15)	**2,622**	2,656
Interest paid		**(2,542)**	(2,633)
Deferred income tax expense (recovery)	(16)	**1,766**	(220)
Change in non-cash working capital	(21)	**155**	(1,219)
		15,365	2,352
Financing Activities			
Repayment of debt assumed from Crocotta Energy Inc.	(4)	**(15,344)**	-
Net contributions from Crocotta Energy Inc.	(10)	**28,252**	38,825
Issuance of shares	(11)	**93,297**	-
Share issue costs	(11)	**(2,658)**	-
		103,547	38,825
Investing Activities			
Capital expenditures - business acquisition	(5)	**(7,869)**	-
Capital expenditures - property, plant, and equipment	(6)	**(26,492)**	(23,357)
Capital expenditures - exploration and evaluation assets	(7)	**(58,093)**	(16,497)
Change in non-cash working capital	(21)	**14,871**	(1,323)
		(77,583)	(41,177)
Change in cash and cash equivalents		**41,329**	-
Cash and cash equivalents, beginning of year		**-**	-
Cash and cash equivalents, end of year		**41,329**	-

The accompanying notes are an integral part of these financial statements.

1. REPORTING ENTITY

Leucrotta Exploration Inc. ("Leucrotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. Leucrotta was incorporated in Alberta, Canada under the Business Corporations Act (Alberta) on June 10, 2014 under the name of 1828073 Alberta Ltd., and subsequently changed its name to Leucrotta Exploration Inc. on July 15, 2014. The Company commenced trading on the TSX Venture Exchange ("TSXV") on August 19, 2014 under the symbol "LXE".

On June 12, 2014, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") entered into an arrangement agreement (the "Arrangement") whereby Long Run would acquire all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange of Crocotta shares for Long Run shares, Crocotta issued 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant (one whole warrant being an "Arrangement Warrant") to each shareholder of Crocotta. On August 6, 2014 the holders of common shares of Crocotta approved the Arrangement.

In connection with the Arrangement, Crocotta transferred its oil and natural gas assets located in British Columbia, Canada ("BC Assets") to Leucrotta along with any net debt of Crocotta in excess of the aggregate of $100 million, transaction costs in excess of $5.0 million, and certain approved capital expenditures. Leucrotta commenced active oil and natural gas operations with the transfer of the BC Assets upon close of the Arrangement on August 6, 2014.

The Company conducts many of its activities jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

The Company's place of business is located at 700, 639 – 5th Avenue SW, Calgary, Alberta, Canada, T2P 0M9.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issuance by the Board of Directors on April 27, 2015.

(b) Basis of measurement

The financial statements present the historic financial position, results of operations and cash flows of the transferred BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control (carve-out financial statements). The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement. The carve-out financial statements have been prepared by management in accordance with IFRS.

The basis of allocation for certain assets, liabilities, revenue and expenses are described below:

Accounts receivable attributable to the BC Assets were estimated based on the last month's accrued revenue for each period end, assuming a 31 day payment cycle.

Prepaid expenses and deposits include amounts directly attributable to the BC Assets.

Exploration and evaluation assets related to the BC Assets were carved-out based on historical cost records of Crocotta directly attributable to the BC Assets.

Property, plant, and equipment related to the BC Assets were carved-out based on historical cost records of Crocotta directly attributable to the BC Assets.

Accounts payable related to the BC Assets were estimated based on the last month's operating expenditures for each period end, assuming a 31 day payment cycle. Accrued liabilities include accrued capital expenditures directly attributable to the BC Assets.

Decommissioning obligations were derived from the historical records of Crocotta directly attributable to the BC Assets.

Deferred income taxes and related expense (recovery) were calculated as if the BC Assets had been a separate legal entity and had filed separate tax returns since their inception.

Revenue, royalties, production and transportation expenses were derived from amounts directly attributable to the BC Assets.

Depletion and depreciation were derived from the historical records of Crocotta directly attributable to the BC Assets.

Interest expense was estimated by applying Crocotta's average interest rate on bank debt for each period to the net investment in BC Assets in each corresponding period.

Accretion expense was derived from the historical records of Crocotta directly attributable to the BC Assets.

General and administrative expenses ("G&A") were allocated to the BC Assets based on the percentage of capital expenditures related to the BC Assets relative to the overall capital expenditures of Crocotta.

Share based compensation expense ("SBC") was allocated to the BC Assets based on the percentage of capital expenditures related to the BC Assets relative to the overall capital expenditures of Crocotta.

Risk management contracts and related realized and unrealized gains and losses on risk management contracts were not allocated to the BC Assets.

Equity in the BC Assets is shown as a net investment in place of Shareholders' Equity because a direct ownership by shareholders in the BC Assets did not exist. All excess cash flows are assumed to be distributed to Crocotta and all cash flow deficiencies and capital expenditures are assumed to be funded by Crocotta through the net investment.

(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur.

Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Common-control transaction
Since the shareholders of Leucrotta and Crocotta upon the close of the Arrangement were the same, this transaction was deemed a common-control transaction. As such, the assets and liabilities assumed by Leucrotta, including property, plant, and equipment, exploration and evaluation assets, decommissioning obligations and a deferred tax asset, were originally recognized on the date of acquisition at the net carrying value of the BC Assets according to historical cost financial records of Crocotta.

Carve-out financial statements
The financial statements present the historic financial position, results of operations and cash flows of the transferred BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control (carve-out financial statements). The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement. The preparation of the carve-out financial statements requires the use of significant judgments by management in the allocation of the reported amounts of Crocotta to the carve-out assets and liabilities. The carve-out financial statements do not necessarily reflect what the financial position, results of operations and cash flows would have been had these net assets been in a separate entity, or the future results of the business, as it exists after the completion of the Arrangement.

Business combinations
Business combinations are accounted for using the acquisition method. Under this method, the consideration transferred is allocated to the assets acquired and the liabilities assumed based on the fair values at the time of acquisition. In determining the fair value of the assets and liabilities, the Company is often required to make assumptions and estimates, such as reserves, future commodity prices, fair value of undeveloped land, discount rates, decommissioning obligations and possible outcome of any assumed contingencies.

Cash-generating units ("CGU")
The Company's assets are aggregated into CGUs for the purposes of calculating depletion and depreciation and impairment. CGUs are determined based on the smallest group of assets that generate cash flows independent of other assets or groups of assets. Determination of CGUs is subject to the Company's judgment and is based on geographical proximity, shared infrastructure, similar exposure to market risk, and materiality.

Impairment
Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land, and other relevant assumptions.

(i) Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
(ii) Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
(iii) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of a discount rate specific to the risk of the CGU being assessed for impairment. Changes in the general economic environment could result in significant changes to this estimate.

Exploration and evaluation assets
The application of the Company's accounting policy for exploration and evaluation assets requires the Company to make certain judgments as to future events and circumstances as to whether economic quantities of reserves will be found so as to assess if technical feasibility and commercial viability has been achieved.

Depletion and depreciation
Amounts recorded for depletion and depreciation are based on estimates of total proved and probable oil and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs, and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

Decommissioning obligations
Amounts recorded for decommissioning obligations requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Share based compensation
Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate value will be using pricing models such as the Black-Scholes-Merton model and Monte Carlo simulations, both of which are based on significant assumptions such as volatility, expected term, and forfeiture rate.

Deferred taxes
Deferred taxes are based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates, and the likelihood of assets being realized. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Judgments are also required to determine the likelihood of whether deferred income taxes at the end of the reporting period will be realized from future taxable earnings.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements.

(a) Joint arrangements

Joint arrangements represent activities where the Company has joint control established by a contractual agreement. Joint control requires unanimous consent for financial and operational decisions (being those that significantly affect the returns of the arrangement). A joint arrangement is either a joint operation, whereby the parties have rights to the assets and obligations for the liabilities, or a joint venture, whereby the parties have rights to the net assets. For a joint operation the financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of the arrangement with items of a similar nature on a line-by-line basis, from the date that joint control commences until the date that joint control ceases. Joint ventures are accounted for using the equity method of accounting and recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of the joint venture's net assets. Many of the Company's oil and natural gas activities involve joint operations.

(b) Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and credit facility. Non-derivative financial instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand, term deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less, measured at amortized cost. Any transaction costs are recognized in profit or loss as incurred.

Other
Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and credit facility, are measured at amortized cost using the effective interest method, less any impairment losses.

Derivative financial instruments

From time to time, the Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company does not designate financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are measured at fair value, with changes therein recognized in profit or loss. Transaction costs are recognized in profit or loss when incurred.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(c) Property, plant, and equipment and exploration and evaluation assets

Recognition and measurement

Exploration and evaluation expenditures
Pre-license costs are recognized in profit or loss as incurred.

Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs, are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centers by well, field, or exploration area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. If proved or probable reserves are found, the accumulated costs and associated undeveloped land are transferred to property, plant, and equipment. The exploration and evaluation costs are reviewed for impairment prior to any such transfer.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and are transferred to property, plant, and equipment, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

Development and production costs
Items of property, plant, and equipment, which include oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The cost of development and production assets includes: transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the well; facility costs; the cost of recognizing provisions for future restoration and decommissioning obligations; geological and geophysical costs; and directly attributable overhead.

Development and production assets are grouped into CGUs for impairment testing. The Company currently only has one CGU being Northeast BC.

When significant parts of an item of property, plant, and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of an item of property, plant, and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant, and equipment and are recognized in profit or loss. The carrying amount of any replaced or disposed item of property, plant, and equipment is derecognized.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant, and equipment are recognized as property, plant, and equipment only when they increase the future economic benefits embodied in the specific asset to which they relate. Capitalized property, plant, and equipment generally represent costs incurred in developing proved or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The costs of the day-to-day servicing of property, plant, and equipment are recognized in operating expenses as incurred.

Non-monetary asset swaps

Exchanges or swaps of property, plant, and equipment are measured at fair value unless the exchange transaction lacks commercial substance or neither the fair value of the assets given up nor the assets received can be reliably estimated. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on derecognition of the asset given up is included in profit or loss. Exchanges or parts of exchanges that involve principally exploration and evaluation assets are measured at the carrying amount of the asset exchanged, reduced by the amount of any cash consideration received. No gain or loss is recognized unless the cash consideration received exceeds the carrying value of the asset held.

Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account the estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated at least annually by independent qualified reserve evaluators and represent the estimated quantities of oil, natural gas, and natural gas liquids which geological, geophysical, and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

The Company has determined the estimated useful lives for gas processing plants, pipeline facilities, and compression facilities to be consistent with the reserve lives of the areas for which they serve. As such, the Company includes the cost of these assets within their associated CGU for the purpose of depletion using the unit of production method.

The cost of office and other equipment is depreciated using the straight-line method over the estimated useful life of three years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date.

Leased assets

Leases wherein the Company assumes substantially all the risks and rewards of ownership are classified as finance leases, when applicable. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expenses and the reduction of the outstanding liability. The finance expenses are allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Other leases are classified as operating leases, which are not recognized on the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. The Company's presently outstanding leases have been determined to be operating leases.

(d) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant, and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (CGU). The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined to be the amount for which the asset could be sold in an arm's length transaction. In determining fair value less costs of disposal, discounted cash flows and recent market transactions are taken into account. These calculations are corroborated by valuation multiples or other available fair value indicators.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted using geological, production, recovery, and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the CGUs on a pro rata basis. Impairment losses recognized in prior periods are assessed each reporting date if facts or circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(e) Business combinations

Transactions for the purchase of assets, where the assets acquired are deemed to constitute a business, are accounted for as business combinations. Using the acquisition method, identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Transaction costs related to the acquisition are expensed as incurred.

(f) Common-control transaction

The assets and liabilities assumed by Leucrotta under the common-control transaction, including property, plant, and equipment, exploration and evaluation assets, decommissioning obligations and a deferred tax asset, were originally recognized on the date of acquisition at their respective carrying amounts according to historical cost financial records of Crocotta.

(g) Share based compensation

The Company uses the fair value method for valuing share based compensation. Under this method, the compensation cost attributed to stock options and warrants is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the settlement of the stock options, the previously recognized value in contributed surplus is recorded as an increase to share capital.

(h) Provisions

Provisions are recognized when the Company has a present obligation as a result of a past event that can be estimated with reasonable certainty. Provisions are measured by estimating the cash flows that the Company would pay to be relieved of the obligation. To the extent that provisions are estimated using a present value technique, such amounts are determined by discounting the estimated future cash flows at a risk-free pretax rate. Provisions are not recognized for future operating losses.

Decommissioning obligations
The Company's activities give rise to dismantling, decommissioning, and site disturbance remediation activities. A provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category. The capitalized amount is depreciated on a unit of production basis over the life of the associated proved plus probable reserves. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the estimated future cash flows underlying the obligation, and changes in the risk-free rate. The increase in the provision due to the passage of time is recognized as accretion (within finance expenses) whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(i) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer which is usually when legal title passes to the external party.

(j) Finance income and expenses

Finance income and expenses comprises interest expense, including interest on credit facility, accretion on decommissioning obligations, and interest income.

Interest expense related to prior periods up to August 6, 2014 before the Company raised cash from share issuances were allocated based on applying Crocotta's average interest rate on bank debt for each period to the net investment in BC Assets. All excess cash flows are assumed to be distributed to Crocotta and all cash flow deficiencies and capital expenditures are assumed to be funded by Crocotta through the net investment.

(k) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis, or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable earnings will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Earnings per share

Basic earnings per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the weighted average number of common shares outstanding during the period for the effects of dilutive instruments such as stock options granted.

(m) Changes in accounting policies

Effective January 1, 2014, the Company has adopted the following new IFRS standards and amendments, applied retrospectively:

International Financial Reporting Interpretations Committee ("IFRIC") Interpretation 21 "Levies", with respect to recognition of liabilities resulting from government levies. The adoption of this standard did not have a material impact on the Company's financial statements.

International Accounting Standards ("IAS") 32 "Financial Instruments: Presentation", clarifies the requirements for offsetting financial assets and liabilities. The amendments clarify when an entity has a legally enforceable right to offset and certain other requirements that are necessary to present a net financial asset or liability. The adoption of this standard did not have a material impact on the Company's financial statements.

Amendments to IAS 36 "Impairment of Assets" reduces the circumstances in which the recoverable amount of cash-generating units is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The adoption of this standard did not have a material impact on the Company's financial statements.

(n) New standards and interpretations not yet adopted

On May 6, 2014 the IASB issued "Accounting for Acquisitions of Interests in Joint Operations" (Amendments to IFRS 11). The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The Company intends to adopt the amendments to IFRS 11 in its financial statements for the annual period beginning on January 1, 2016. The extent of the impact of adoption of the amendments has not yet been determined.

On May 28, 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more disclosure. IFRS 15 will replace IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programs", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers", and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 will be effective for annual periods beginning on or after January 1, 2017. Application of the standard is mandatory and early adoption is permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

On July 24, 2014 the IASB issued the complete IFRS 9. In November 2009 the IASB issued the first version of IFRS 9, "Financial Instruments" and subsequently issued various amendments in October 2010 and November 2013. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The standard introduces new requirements for classifying and measuring financial instruments and includes a new general hedge accounting standard that will provide more risk management strategies to qualify for hedge accounting. The extent of the impact of adoption of the standard has not yet been determined.

4. COMMON-CONTROL TRANSACTION

As described in note 1, on August 6, 2014 Crocotta shareholders approved the Arrangement whereby Long Run acquired all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange of Crocotta shares for Long Run shares, Crocotta issued 1.0 common share of Leucrotta and 0.2 of a Leucrotta Arrangement Warrant to each shareholder of Crocotta. In connection with the Arrangement Crocotta transferred the BC Assets to Leucrotta along with any net debt of Crocotta in excess of the aggregate of $100 million, transaction costs in excess of $5.0 million, and certain approved capital expenditures. Since the shareholders of Leucrotta and Crocotta upon the close of the Arrangement were the same, this transaction was deemed a common-control transaction. As such, the Company elected to recognize the assets and liabilities assumed by Leucrotta, including property, plant, and equipment, exploration and evaluation assets, decommissioning obligations and a deferred tax asset at the carrying amount of the BC Assets according to historical cost financial records of Crocotta as follows:

Carrying amount of BC Assets acquired	
Property, plant, and equipment	70,457
Exploration and evaluation assets	47,985
Deferred income taxes	10,992
Decommissioning obligations	(1,946)
	127,488

Consideration	
Assumption of debt	15,344
Issuance of common shares (105,613 at $1.70 per common share)	179,542
Reserve from common-control transaction	(69,712)
Exercise of stock options - Contributed Surplus transferred to share capital	2,314
	127,488

Common shares issued as part of the consideration for common-control transaction with Crocotta were valued at $1.70 per common share which was based on the issue price of the public and insider private placements. The reserve from common-control transaction represents the difference between the fair value of the Leucrotta shares issued to existing Crocotta shareholders and the net book value of the acquired assets and assumed liabilities.

5. PROPERTY ACQUISITIONS

(a) Business acquisition

On September 10, 2014, the Company closed the acquisition of certain oil and natural gas assets in the Company's core Northeast BC area. This acquisition adds to the Company's undeveloped land inventory in the area with a focus on the Montney zone. The property acquisition was accounted for as a business combination under IFRS 3 as follows:

Fair value of net assets acquired	
Property, plant, and equipment	2,723
Exploration and evaluation assets	13,339
Decommissioning obligations	(892)
	15,170

Consideration	
Cash	7,869
Issuance of common shares (3,318 at $2.20 per common share)	7,301
	15,170

The purchase price allocation is not final because the Company is continuing to obtain and verify information required to determine the fair value of certain assets and liabilities.

Common shares issued as part of the consideration were valued at $2.20 per common share based on the closing price of the Company's common shares on the date control was acquired.

Following the acquisition, property, plant, and equipment and decommissioning obligations were increased by $2.6 million, reflecting the calculation of decommissioning obligations using a risk-free discount rate. A credit-adjusted discount rate was used to determine the fair value of the decommissioning obligations.

The financial statements incorporate the operations of the acquired properties commencing September 10, 2014. During the period from September 10, 2014 to December 31, 2014, the Company recorded revenues of $0.7 million and net earnings of $0.1 million in respect of these properties. If the acquisition had occurred on January 1, 2014, total revenue of $2.7 million and net earnings of $1.4 million would have been recorded for the year ended December 31, 2014.

(b) Other

The Company closed eight other property acquisitions during the year ended December 31, 2014. Net assets acquired were undeveloped land in the Company's core area of Northeast BC adding to the Company's undeveloped land inventory in the area with a focus on the Montney zone. Total combined consideration was $17.6 million comprised of $14.5 million cash and 1.4 million shares valued at $3.1 million. Common shares issued as part of the consideration were valued at $2.20 per common share based on the closing price of the Company's common shares on the date the assets were acquired.

6. PROPERTY, PLANT, AND EQUIPMENT

Cost	Total
Balance, January 1, 2013	36,762
Additions	23,357
Transfer from exploration and evaluation assets	9,398
Change in decommissioning obligation estimates	925
Capitalized share based compensation	32
Balance, December 31, 2013	70,474
Business acquisition	**2,723**
Additions	**26,492**
Transfer from exploration and evaluation assets	**790**
Change in decommissioning obligation estimates	**4,768**
Capitalized share based compensation	**146**
Balance, December 31, 2014	**105,393**

Accumulated Depletion, Depreciation, and Impairment	Total
Balance, January 1, 2013	3,275
Depletion and depreciation	4,443
Balance, December 31, 2013	7,718
Depletion and depreciation	**7,822**
Balance, December 31, 2014	**15,540**

Net Book Value	Total
January 1, 2013	33,487
December 31, 2013	62,756
December 31, 2014	**89,853**

During the year ended December 31, 2014, approximately $0.1 million (2013 - $0.1 million) of directly attributable general and administrative costs were capitalized as expenditures on property, plant, and equipment.

Depletion and depreciation

The calculation of depletion and depreciation expense for the year ended December 31, 2014 included an estimated $129.1 million (2013 - $77.4 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately $2.2 million (2013 - $0.7 million) for the estimated salvage value of production equipment and facilities and approximately $9.0 million (2013 - $nil) of assets under construction.

7. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, January 1, 2013	15,849
Additions	16,497
Transfer to property, plant, and equipment	(9,398)
Balance, December 31, 2013	22,948
Business acquisition	**13,339**
Additions	**61,206**
Transfer to property, plant, and equipment	**(790)**
Lease expiries	**(406)**
Capitalized share based compensation	**253**
Balance, December 31, 2014	**96,550**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period, consisting primarily of undeveloped land and drilling costs until the drilling of the well is complete and the results have been evaluated. All expenditures for the year ended December 31, 2014 related to Northeast BC.

During the year ended December 31, 2014, approximately $0.3 million (2013 - $0.1 million) of directly attributable general and administrative costs were capitalized as expenditures on exploration and evaluation assets.

Lease expiries of $0.4 million for the year ended December 31, 2014 have been included in depletion and depreciation on the statement of operations and comprehensive earnings (loss).

8. CREDIT FACILITY

The Company has a $25.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a $100 million fixed and floating charge debenture on the assets of the Company. At December 31, 2014, $nil had been drawn on the revolving credit facility. At December 31, 2014, the Company had outstanding letters of guarantee of $0.2 million which reduce the amount that can be borrowed under the credit facility. The next review of the revolving credit facility by the bank is scheduled on or before May 1, 2015.

The Company's credit facility includes a covenant requiring the Company to maintain an adjusted working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its credit facility less current liabilities excluding any current portion drawn on the credit facility. The Company was fully compliant with this covenant at December 31, 2014.

Subsequent to December 31, 2014, the Company deposited $1.0 million in a restricted corporate account to cross-guarantee a margin account for the President of the Company. The President is charged a fee by the Company and the margin account is also restricted until the cross guarantee is removed. The margin account holds $3.7 million of securities of Leucrotta common shares and a margin payable of $984 thousand. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. Throughout late 2014 and into 2015, significant trading restrictions (blackouts) have been placed on all insiders of the Company due to the fact that Leucrotta is a small entity in a large emerging play whereby most operations are material. The cross-guarantee has allowed the President to comply with corporate governance mandates.

9. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows (adjusted for inflation at 2% per year) required to settle the decommissioning obligations is approximately $13.9 million which is estimated to be incurred over the next 43 years. At December 31, 2014, a risk-free rate of 2.2% (December 31, 2013 – 3.1%) was used to calculate the net present value of the decommissioning obligations.

	Year Ended December 31, 2014	Year Ended December 31, 2013
Balance, beginning of year	**1,546**	598
Provisions incurred	**588**	1,013
Acquisitions	**892**	-
Revaluation of liabilities acquired	**2,582**	-
Revisions in estimated cash flows	**887**	-
Revisions due to change of discount rates	**711**	(88)
Accretion	**80**	23
Balance, end of year	**7,286**	1,546

Revaluation of liabilities acquired is the revaluation of acquired decommissioning obligations using the risk-free discount rate. At the date of acquisition, the acquired decommissioning obligations were fair valued using a credit-adjusted discount rate.

10. NET INVESTMENT IN BC ASSETS

Crocotta's net investment in the operations of the BC Assets is presented as net investment in BC Assets in these financial statements. The net investment in BC Assets is comprised of accumulated net earnings (loss) of the operations and the accumulated net contributions from Crocotta up to August 6, 2014, the date of the common-control transaction as described in notes 1 and 4.

Net financing transactions with Crocotta as presented on the statement of cash flows represent the net contributions and distributions related to funding between BC Assets and Crocotta.

The following table reconciles the net investment in BC Assets:

	Period Ended August 6, 2014	Year Ended December 31, 2013
Balance, beginning of year	**80,139**	42,590
Net earnings (loss)	**3,524**	(1,276)
Net contributions from Crocotta	**28,252**	38,825
Deferred tax adjustment on common-control transaction	**13,259**	-
Assumption of Crocotta debt on common-control transaction	**(15,344)**	-
Common shares issued on common-control transaction	**(179,542)**	-
Transfer to reserve from common-control transaction	**69,712**	-
Balance, end of year	**-**	80,139

11. SHAREHOLDERS' CAPITAL

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. No non-voting common shares or preferred shares have been issued.

Voting Common Shares	Number	Amount
Balance, January 1, 2013 and December 31, 2013	-	-
Transfer of Crocotta Energy Inc. contributed surplus upon Arrangement	-	2,314
Share issuances, Crocotta Energy Inc. common-control transaction	105,613	179,542
Exercise of Arrangement Warrants	20,760	35,292
Share issuances, private placements	34,121	58,005
Share issuances, oil and gas property acquisitions	4,733	10,414
Share issue costs, net of deferred tax effect of $0.7 million	-	(1,980)
Balance, December 31, 2014	**165,227**	**283,587**

Arrangement Warrants	Number
Balance, January 1, 2013 and December 31, 2013	-
Issued upon Arrangement	21,123
Exercised	(20,760)
Expired	(363)
Balance, December 31, 2014	**-**

As described in notes 1 and 4, on August 6, 2014 Crocotta shareholders approved the Arrangement whereby Long Run acquired all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange of Crocotta shares for Long Run shares, Crocotta issued 1.0 common share of Leucrotta and 0.2 of a Leucrotta Arrangement Warrant to each shareholder of Crocotta. Each Arrangement Warrant entitled the holder to purchase one common share of Leucrotta at an exercise price of $1.70 per common share expiring 30 days following the close of the Arrangement. 20.8 million of the total 21.1 million were exercised on or prior to September 5, 2014 for proceeds of $35.3 million.

In connection with the Arrangement, on June 12, 2014, the Company closed a bought deal public financing through a syndicate of underwriters. The Company issued 26.5 million subscription receipts at a price of $1.70 per subscription receipt for gross proceeds of $45.0 million. In accordance with their terms, each subscription receipt was exchanged for one common share and the proceeds from the sale of subscription receipts were released from escrow on August 15, 2014 after the closing of the Arrangement and confirmation of listing on the TSXV.

Also in connection with the Arrangement, on September 12, 2014, the Company closed a private placement to officers, directors, employees and consultants of the Company. The Company issued 7.65 million units for gross proceeds of $13.0 million comprised of one common share and one common share purchase warrant. Each purchase warrant entitles the holder to purchase one common share at an exercise price of $2.04 expiring on September 12, 2019 and vests equally over three years. These purchase warrants have been treated like stock options and expensed as share based compensation on the basis the purchase warrants were only made available to certain individuals as officers, directors, employees, and consultants of the Company.

Common shares issued as part of the consideration for the common-control transaction with Crocotta were valued at $1.70 per common share which was based on the issue price of the public and insider private placements.

Common shares issued as part of the consideration for the business combination and property acquisitions were valued at $2.20 per common share based on the closing price of the Company's common shares on the date the assets or control of the business were acquired.

12. SHARE BASED COMPENSATION PLANS

Stock options

The Company has authorized and reserved for issuance 16.5 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants (the performance warrants described below are aggregated with any options for the 10% limit). Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant and an option's maximum term is ten years. At December 31, 2014, 4.7 million options were outstanding at an exercise price of $1.29 per share.

	Number of Options	Weighted Average Exercise Price ($)
Balance, January 1, 2013 and December 31, 2013	-	-
Granted	**4,672**	**1.29**
Exercised	**-**	**-**
Forfeited	**-**	**-**
Balance, December 31, 2014	**4,672**	**1.29**
Exercisable, December 31, 2014	-	-

During the year ended December 31, 2014, the Company recognized $37 thousand of share based compensation related to the stock options. At December 31, 2014 there was $2.1 million remaining as unrecognized share based compensation related to the stock options.

As described in note 2 (b), for the purposes of carve-out period Leucrotta allocated a portion of the share based compensation expense associated with granted and outstanding stock options of Crocotta. The following tables summarize the consolidated information of outstanding stock options of Crocotta prior to the close of the Arrangement. Leucrotta allocated $0.5 million of share based compensation to the BC Assets for the period from January 1, 2014 to August 6, 2014, of which $0.5 million was recognized as an expense and $nil was recognized as a capital addition ($0.6 million and $nil was recognized as an expense and capital addition, respectively, for the year ended December 31, 2013).

The closing of the Arrangement represented a change in control event, under which all outstanding stock options immediately vested and were exercised prior to the exchange of Crocotta shares for Long Run shares, as described in note 1. $2.3 million of contributed surplus was reclassified to share capital.

For periods prior to August 6, 2014, Crocotta had authorized and reserved for issuance 9.6 million common shares of Crocotta under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. Crocotta did not issue options exceeding 10% of the shares outstanding at the time of the option grants. Under the plan, the exercise price of each option equalled the market price of Crocotta's shares on the date of the grant. The options vested over a period of three years and an option's maximum term was five years. On August 6, 2014, in conjunction with the Arrangement, all Crocotta stock options were exercised.

The number and weighted average exercise price of Crocotta stock options were as follows:

	Number of Options	Weighted Average Exercise Price ($)
Balance, January 1, 2013	8,601	2.32
Granted	1,717	2.77
Exercised	(1,409)	1.46
Forfeited	(60)	2.83
Balance, December 31, 2013	8,849	2.32
Granted	**100**	**2.85**
Exercised	**(8,903)**	**2.32**
Forfeited	**(46)**	**2.89**
Balance, December 31, 2014	**-**	**-**

Performance Warrants

In connection with the Arrangement, on August 18, 2014, the Company issued 7.5 million performance warrants to certain officers, directors, employees, and consultants to purchase common shares at an exercise price of $1.70. The performance warrants expire on August 18, 2019 and are subject to both time vesting equally over three years and performance vesting as follows:

30 day Volume Weighted Average Trading Price of the Common Shares ($)	Percentage of Warrants Vested
1.87	20%
2.04	40%
2.21	60%
2.38	80%
2.55	100%

	Number	Exercise Price
Balance, January 1, 2013 and December 31, 2013	-	-
Granted	7,500	1.70
Exercised	-	-
Expired	-	-
Balance, December 31, 2014	**7,500**	**1.70**
Exercisable, December 31, 2014	-	-

During the year ended December 31, 2014, the Company recognized $0.9 million of share based compensation related to the performance warrants. At December 31, 2014 there was $4.1 million remaining as unrecognized share based compensation related to the performance warrants.

Purchase Warrants

In connection with the Arrangement, on September 12, 2014, the Company closed a private placement to officers, directors, employees and consultants of the Company. The Company issued 7.65 million units at a price of $1.70 per unit for gross proceeds of $13.0 million comprised of one common share and one common share purchase warrant. Each purchase warrant entitles the holder to purchase one common share at an exercise price of $2.04 expiring on September 12, 2019 and vests equally over three years.

The purchase warrants are recognized as a share based compensation plan on the basis the purchase warrants were only made available to certain individuals as officers, directors, employees, and consultants of the Company.

	Number of Warrants	Exercise Price
Balance, January 1, 2013 and December 31, 2013	-	-
Granted	7,650	2.04
Exercised	-	-
Expired	-	-
Balance, December 31, 2014	**7,650**	**2.04**
Exercisable, December 31, 2014	-	-

During the year ended December 31, 2014, the Company recognized $1.0 million of share based compensation related to the purchase warrants. At December 31, 2014 there was $3.5 million remaining as unrecognized share based compensation related to the purchase warrants.

Share based compensation

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus.

The fair value of the performance warrants was determined based on a Monte Carlo simulation and the fair value of stock options and purchase warrants were measured based on the Black-Scholes-Merton option-pricing model. The fair value of the stock options and warrants granted was estimated on the date of grant using the following weighted average assumptions:

	Stock Options	Performance Warrants	Purchase Warrants
Risk-free interest rate (%)	1.1	1.5	1.7
Expected life (years)	3.5	3.4	4.0
Expected volatility (%)	54.6	54.6	54.6
Expected dividend yield (%)	-	-	-
Forfeiture rate (%)	5.7	5.7	5.7
Weighted average fair value ($ per option or warrant)	0.52	0.70	0.64

The fair value of the stock options granted by Crocotta during periods prior to August 6, 2014 were estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

	December 31, 2014	December 31, 2013
Risk-free interest rate (%)	**1.5**	1.6
Expected life (years)	**4.0**	4.0
Expected volatility (%)	**48.4**	51.6
Expected dividend yield (%)	**-**	-
Forfeiture rate (%)	**5.7**	5.9
Weighted average fair value of options granted ($ per option)	**1.11**	1.15

13. PER SHARE AMOUNTS

For the purposes of computing per share amounts, the number of shares outstanding for the periods prior to the Arrangement is deemed to be the number of shares issued by the Company to the shareholders of Crocotta upon closing of the Arrangement. For the period after the Arrangement, the number of shares outstanding in the computation of per share amounts is the total issued shares of the Company on August 6, 2014 and the shares issued subsequent to August 6, 2014. At December 31, 2014 there were 4.7 million stock options, 7.7 million purchase warrants and 7.5 million performance warrants that were anti-dilutive.

The following table summarizes the weighted average number of shares used in the basic and diluted net earnings (loss) per share calculations:

	December 31, 2014	December 31, 2013
Weighted average number of shares - basic	**126,329**	105,613
Dilutive effect of share based compensation plans	**-**	-
Weighted average number of shares - diluted	**126,329**	105,613

14. KEY MANAGEMENT PERSONNEL

The Company considers its directors and executives to be key management personnel. The key management personnel compensation is comprised of the following:

	December 31, 2014	December 31, 2013
Short-term wages and benefits	**1,660**	839
Share based compensation (1)	**1,611**	339
Total (2) (3)	**3,271**	1,178

(1) Represents the amortization of share based compensation expense associated with the Company's share based compensation plans granted to key management personnel.
(2) Balances outstanding and payable at December 31, 2014 were $nil (2013 - $0.6 million).
(3) At December 31, 2014, key management personnel included 12 individuals (2013 – 15 individuals).

15. FINANCE EXPENSES

Finance expenses include the following:

	December 31, 2014	December 31, 2013
Interest expense	**2,542**	2,633
Accretion of decommissioning obligations	**80**	23
Finance expenses	**2,622**	2,656

16. INCOME TAXES

(a) The provision for income taxes in the statements of operations and comprehensive earnings (loss) reflects an effective tax rate which differs from the expected statutory tax rate. The differences were accounted for as follows:

	December 31, 2014	December 31, 2013
Earnings (loss) before taxes	**4,856**	(1,496)
Statutory income tax rate	**25.5%**	25.5%
Expected income tax expense (reduction)	**1,238**	(381)
Increase in income taxes resulting from:		
Share based compensation and other non-deductible amounts	**528**	161
	1,766	(220)

The Company has recognized a net deferred tax asset based on the independently evaluated reserve report as cash flows are expected to be sufficient to realize the deferred tax asset.

(b) Recognized deferred tax balances for the years ended December 31, 2014 and 2013 are as follows:

2014	Balance January 1, 2014	Recognized in Earnings or Loss	Recognized in Equity	Recognized in Common-Control Transaction	Balance December 31, 2014
Deferred income tax assets (liabilities):					
Oil and natural gas properties and equipment	(1,289)	(3,175)	-	13,259	8,795
Decommissioning obligations	394	1,464	-	-	1,858
Share issue costs	-	(55)	678	-	623
Net deferred income tax asset (liability)	(895)	(1,766)	678	13,259	11,276

2013	Balance January 1, 2013	Recognized in Earnings or Loss	Recognized in Equity	Balance December 31, 2013
Deferred income tax assets (liabilities):				
Oil and natural gas properties and equipment	(1,267)	(22)	-	(1,289)
Decommissioning obligations	152	242	-	394
Net deferred income tax asset (liability)	(1,115)	220	-	(895)

At December 31, 2014, the Company has estimated federal tax pools of $223.0 million (December 31, 2013 - $80.6 million) available for deduction against future taxable income. As part of the Arrangement, the Company acquired $159.6 million of tax pools. The amount of deferred tax asset recognized in the common-control transaction of $13.3 million represents the tax asset difference in tax pools between those estimated based on historical records of Crocotta and those actually acquired.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities at December 31, 2014 approximated their carrying value due to their short term to maturity.

The Company classified the fair value of its financial instruments at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – observable inputs, such as quoted market prices in active markets
- Level 2 – inputs, other that the quoted market prices in active markets, which are observable, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability in which little or no market data exists, therefore requiring an entity to develop its own assumptions

During the years ended December 31, 2014 and 2013, there were no transfers between level 1, level 2, and level 3 classified assets and liabilities.

18. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities. The Company employs risk management strategies and policies to ensure that any exposure to risk is in compliance with the Company's business objectives and risk tolerance levels. Risk management is ultimately established by the Board of Directors and is implemented by management. As required under the terms of the Company's credit facility, the Company is subject to an upper limit on fixed price contracts of 65% of its future production up to a three year period.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

Foreign exchange risk
The prices received by the Company for the production of oil, natural gas, and NGLs are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates.

Interest rate risk
The Company is exposed to interest rate risk as it borrows funds at floating interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The amount drawn on the Company's credit facility at December 31, 2014 was $nil.

Commodity price risk
Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. A $1.00/boe increase or decrease in commodity prices would have impacted net earnings by approximately $0.6 million for the year ended December 31, 2014 (2013 - $0.3 million).

The Company did not enter into commodity price contracts to manage future cash flows as at December 31, 2014.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its oil and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount of accounts receivable on the statement of financial position. At December 31, 2014, $3.4 million (100%) of the Company's outstanding accounts receivable were current. During the period ended December 31, 2014, the Company did not deem any outstanding accounts receivable to be uncollectable.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company has commitments in 2015 of $19.6 million for plant and equipment related to its gas plant expansion in Northeast BC. These commitments can be funded fully with existing working capital without drawing on the Company's credit facility. With declining commodity prices in Q4 2014, the Company has decided to delay this gas plant project and plans to fulfill its outstanding commitments and complete the fabrication of the components committed to, with the intent to sell each component and create more financial flexibility going forward. The Company has also committed to firm transportation over five years for a total of $52.7 million. With the decline of commodity prices and resulting delay of the gas plant project, it is unlikely the Company fulfills all of the firm transportation commitment itself. The Company plans to mitigate this risk by selling off a portion of this this firm transportation. Transportation is a saleable commodity and there is an available market in the area to transact in the current environment.

See note 22 for a summary of contractual maturities of financial liabilities at December 31, 2014.

19. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain a flexible capital structure, which optimizes the cost of capital at an acceptable risk, and to maintain investor, creditor, and market confidence to sustain future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company considers its capital structure to include shareholders' equity and working capital (current assets less current liabilities). To maintain or adjust the capital structure, the Company may, from time to time, issue shares, raise debt, or adjust its capital spending to manage its current and projected debt levels.

	December 31, 2014	December 31, 2013
Shareholders' equity	**215,396**	81,963
Working capital (deficiency)	**25,003**	(1,300)

In addition, management prepares annual, quarterly, and monthly budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The Company's share capital is not subject to external restrictions, however, the Company's credit facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one (see note 8). There were no changes in the Company's approach to capital management from the previous year.

20. SUPPLEMENTAL DISCLOSURES

Presentation of expenses

The Company's statements of operations and comprehensive earnings (loss) is prepared primarily by nature of expense, with the exception of employee compensation costs which are included in general and administrative expenses. Included in general and administrative expenses for the year ended December 31, 2014 are $2.5 million of wages and benefits (2013 - $1.5 million).

21. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2014	December 31, 2013
Accounts receivable	**(1,089)**	(1,311)
Prepaid expenses and deposits	**(227)**	(98)
Accounts payable and accrued liabilities	**16,342**	(1,133)
Change in non-cash working capital	**15,026**	(2,542)
Relating to:		
Investing	**14,871**	(1,323)
Operating	**155**	(1,219)
Change in non-cash working capital	**15,026**	(2,542)

22. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at December 31, 2014:

	2015	**2016**	**2017**	**2018**	**2019**	**Thereafter**	**Total**
Office leases	583	583	585	496		-	2,247
Plant and equipment	19,602	-	-	-	-	-	19,602
Firm transportation agreements	739	6,461	9,929	12,555	12,555	10,462	52,701
	20,924	7,044	10,514	13,051	12,555	10,462	74,550

corporateinformation

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VP Finance & CFO

Terry L. Trudeau, P.Eng.
VP Operations & COO

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VP Exploration

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VP Land

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John A. Brussa, B.A., LL.B.
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