Q3 2014 FINANCIAL AND OPERATING RESULTS

LEUCROTTA EXPLORATION INC. (TSXV – LXE) ("Leucrotta" or the "Company") is pleased to announce its financial and operating results for the three and nine months ended September 30, 2014. All dollar figures are Canadian dollars unless otherwise noted.

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 by issuing 54.9 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 2,416 boe/d of production during the third quarter of 2014.
- Acquired 70,900 gross (60,800 net) acres of Montney rights in exchange for $17.9 million cash and 4.7 million common shares.
- Exited quarter with working capital of $57.8 million.
- Entered into a $25.0 million revolving operating demand loan credit facility with a Canadian chartered bank.

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 September 30			Nine Months Ended September 30		
($000s, except per share amounts)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and natural gas sales	**7,586**	2,231	240	**22,521**	7,447	202
Funds from operations [(1)]	**3,740**	(179)	2,189	**12,215**	1,141	971
Per share - basic and diluted	**0.03**	-	na	**0.11**	0.01	1,000
Net earnings (loss)	**199**	(1,080)	118	**3,261**	(1,609)	303
Per share - basic and diluted	-	(0.01)	100	**0.03**	(0.02)	250
Capital expenditures and acquisitions	**31,295**	18,952	65	**67,634**	25,892	161
Working capital (deficiency)				**57,762**	(4,208)	1,473
Common shares outstanding (000s)						
Weighted average - basic and diluted	**128,186**	105,613	21	**113,220**	105,613	7
End of period - basic				**165,227**	-	na
End of period - diluted				**180,377**	-	na

OPERATING RESULTS [2]	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Daily production						
Oil and NGLs (bbls/d)	**325**	107	204	**339**	79	329
Natural gas (mcf/d)	**12,548**	5,797	116	**10,224**	5,915	73
Oil equivalent (boe/d)	**2,416**	1,074	125	**2,043**	1,065	92
Revenue						
Oil and NGLs ($/bbl)	**79.72**	81.77	(3)	**87.14**	86.45	1
Natural gas ($/mcf)	**4.51**	2.67	69	**5.18**	3.46	50
Oil equivalent ($/boe)	**34.12**	22.59	51	**40.37**	25.62	58
Royalties						
Oil and NGLs ($/bbl)	**4.42**	-	na	**2.92**	-	na
Natural gas ($/mcf)	**0.29**	-	na	**0.22**	-	na
Oil equivalent ($/boe)	**2.13**	-	na	**1.57**	-	na
Production expenses						
Oil and NGLs ($/bbl)	**6.65**	8.64	(23)	**6.78**	9.87	(31)
Natural gas ($/mcf)	**1.11**	1.44	(23)	**1.13**	1.70	(34)
Oil equivalent ($/boe)	**6.65**	8.64	(23)	**6.77**	10.17	(33)
Transportation expenses						
Oil and NGLs ($/bbl)	**5.01**	7.91	(37)	**3.39**	8.62	(61)
Natural gas ($/mcf)	**0.25**	0.24	4	**0.19**	0.24	(21)
Oil equivalent ($/boe)	**1.95**	2.08	(6)	**1.53**	1.96	(22)
Operating netback [1]						
Oil and NGLs ($/bbl)	**63.64**	65.22	(2)	**74.05**	67.96	9
Natural gas ($/mcf)	**2.86**	0.99	189	**3.64**	1.52	139
Oil equivalent ($/boe)	**23.39**	11.87	97	**30.50**	13.49	126
Depletion and depreciation ($/boe)	**(11.23)**	(10.43)	8	**(11.39)**	(9.87)	15
General and administrative expenses ($/boe)	**(4.49)**	(4.41)	2	**(4.07)**	(3.02)	35
Share based compensation ($/boe)	**(3.25)**	(1.75)	86	**(1.93)**	(1.06)	82
Finance expenses ($/boe)	**(2.17)**	(9.31)	(77)	**(4.60)**	(6.59)	(30)
Deferred tax expense (recovery) ($/boe)	**(1.36)**	3.16	(143)	**(2.66)**	1.53	(274)
Net earnings (loss) ($/boe)	**0.89**	(10.87)	108	**5.85**	(5.52)	206

(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

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. For reporting purposes, it is assumed that Leucrotta held these assets prior to August 6th and as such; information provided includes production for the entire third quarter of 2014 and nine months year to date as well as comparative periods.

During Q3 2014, Leucrotta significantly increased its core area through the acquisition of a total of 60,000 acres of Montney lands and is now one of the dominant landowners in the Lower Montney turbidite play with over 100,000 acres of land. Recent wells on this play have seen initial production rates of 1,000 to 2,000 boepd with liquids of up to 40%. Given moderate on-stream costs of approximately $5 million combined with high liquid rates, this play would be considered as a top decile play in the basin.

Production for the quarter was stable at 2,416 boepd (13% liquids) with some wells being restricted due to pipeline and facility constraints. Leucrotta is currently producing about 2,600 boepd (19% liquids) with some production still restricted until new pipelines are completed in Q1 2015.

Leucrotta has recently spud the first of three Lower Montney step-out wells and expects to have all three drilled by year-end and completed and tested by the end of January. Results of such wells will be released as soon as meaningful data is gathered.

Leucrotta has an exceptional balance sheet as it entered Q4 2014 with $58 million cash, no debt, and a $25 million credit facility. Given this strong financial position, Leucrotta will be able to carry out its business plan throughout 2015 without the need for additional financing.

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

November 24, 2014

The MD&A should be read in conjunction with the unaudited interim financial statements and related notes for the three and nine months ended September 30, 2014. The unaudited interim 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 $15.0 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 three months ended September 30, 2014, the Company acquired 70,900 gross (60,800 net) acres of Montney rights in exchange for $17.9 million cash and 4.7 million common shares through various property and land acquisitions. In conjunction with the undeveloped land, the Company inherited some non-core production of approximately 150 boe/d and decommissioning obligations.

In addition, the Company spent $25.4 million during the first half of 2014 acquiring Montney lands through property acquisitions and crown land purchases adding 29,800 gross (28,100 net) acres of Montney rights.

SUMMARY OF FINANCIAL RESULTS

($000s, except per share amounts)	Three Months Ended September 30 **2014**	2013	% Change	Nine Months Ended September 30 **2014**	2013	% Change
Oil and natural gas sales	**7,586**	2,231	240	**22,521**	7,447	202
Funds from operations	**3,740**	(179)	2,189	**12,215**	1,141	971
Per share - basic and diluted	**0.03**	-	na	**0.11**	0.01	1,000
Net earnings (loss)	**199**	(1,080)	118	**3,261**	(1,609)	303
Per share - basic and diluted	-	(0.01)	100	**0.03**	(0.02)	250
Total assets				**224,063**	74,788	200
Total long-term liabilities				**6,154**	2,208	179
Working capital (deficiency)				**57,762**	(4,208)	1,473

The Company has experienced significant growth in oil and natural gas sales, funds from operations, and net earnings for the three and nine month periods ended September 30, 2014 over the comparative periods in 2013. Continued successful capital activity during the past year in Northeast BC combined with a significant increase in natural gas prices and a decrease in production expenses led to increased revenue, funds from operations, and net earnings. Total assets, long-term liabilities and working capital have also increased period-over-period as a result of significant capital activity during the past year.

PRODUCTION	Three Months Ended September 30 **2014**	2013	% Change	Nine Months Ended September 30 **2014**	2013	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	**325**	107	204	**339**	79	329
Natural gas (mcf/d)	**12,548**	5,797	116	**10,224**	5,915	73
Combined (boe/d)	**2,416**	1,074	125	**2,043**	1,065	92

Daily production for the three months ended September 30, 2014 increased 125% to 2,416 boe/d compared to 1,074 boe/d for the comparative period in 2013. Year-to-date, daily production increased 92% to 2,043 boe/d in 2014 compared to 1,065 boe/d in 2013. Compared to the previous quarter, daily production increased 28% from 1,892 boe/d. The significant increase in production for these time periods was due to successful drilling activity in Northeast BC during the past year.

Leucrotta's production profile for the third quarter of 2014 was comprised of 87% natural gas and 13% oil and NGLs.

REVENUE ($000s)	Three Months Ended September 30 **2014**	2013	% Change	Nine Months Ended September 30 **2014**	2013	% Change
Oil and NGLs	**2,385**	808	195	**8,073**	1,862	334
Natural gas	**5,201**	1,423	265	**14,448**	5,585	159
Total	**7,586**	2,231	240	**22,521**	7,447	202
Average Sales Price						
Oil and NGLs ($/bbl)	**79.72**	81.77	(3)	**87.14**	86.45	1
Natural gas ($/mcf)	**4.51**	2.67	69	**5.18**	3.46	50
Combined ($/boe)	**34.12**	22.59	51	**40.37**	25.62	58

Revenue totaled $7.6 million for the third quarter of 2014, up 240% from $2.2 million in the comparative period. For the nine months ended September 30, 2014, revenue totaled $22.5 million, an increase of 202% from $7.4 million for the nine months ended September 30, 2013. The increase in revenue was due to significant increases in production combined with significant increases in natural gas prices.

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

Commodity Pricing	Three Months September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs						
Corporate price ($CDN/bbl)	**79.72**	81.77	(3)	**87.14**	86.45	1
Canadian light sweet ($CDN/bbl)	**97.71**	105.17	(7)	**100.53**	95.57	5
West Texas Intermediate ($US/bbl)	**97.17**	105.82	(8)	**99.61**	98.15	1
Natural gas						
Corporate price ($CDN/mcf)	**4.51**	2.67	69	**5.18**	3.46	50
AECO price ($CDN/mcf)	**4.03**	2.43	66	**4.78**	3.00	59
Exchange rate						
CDN/US dollar average exchange rate	**0.9185**	0.9629	(5)	**0.9138**	0.9773	(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 81.6% and 86.7% of Canadian light sweet prices for the three and nine months ended September 30, 2014, consistent with 77.8% and 90.5% for the comparative periods in 2013. Corporate average natural gas prices were 111.9% and 108.4% of AECO price for the three and nine months ended September 30, 2014, compared to 109.9% and 115.3% for the comparative period in 2013.

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 September 30			Nine Months Ended September 30		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Oil and NGLs	**132**	-	na	**270**	-	na
Natural gas	**340**	-	na	**608**	-	na
Total	**472**	-	na	**878**	-	na
Average Royalty Rate (% of sales)						
Oil and NGLs	**5.5**	-	na	**3.3**	-	na
Natural gas	**6.5**	-	na	**4.2**	-	na
Combined	**6.2**	-	na	**3.9**	-	na

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 and nine months ended September 30, 2014, oil, NGLs, and natural gas royalties totaled $0.5 million (6.2% of revenue) and $0.9 million (3.9% of revenue). Royalties have increased from $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 September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)	**6.65**	8.64	(23)	**6.78**	9.87	(31)
Natural gas ($/mcf)	**1.11**	1.44	(23)	**1.13**	1.70	(34)
Combined ($/boe)	**6.65**	8.64	(23)	**6.77**	10.17	(33)

Per unit production expenses for the three and nine months ended September 30, 2014 were $6.65/boe and $6.77/boe, respectively, compared to $8.64/boe and $10.17/boe for the comparative periods ended September 30, 2013. The Company reduced production expenses from the comparative periods in Northeast BC 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 production expenses of approximately $30.00/boe which will increase the Company's overall production expenses in the future from the $7.00/boe range to the $8.50/boe range.

TRANSPORTATION EXPENSES	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)	**5.01**	7.91	(37)	**3.39**	8.62	(61)
Natural gas ($/mcf)	**0.25**	0.24	4	**0.19**	0.24	(21)
Combined ($/boe)	**1.95**	2.08	(6)	**1.53**	1.96	(22)

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. Transportation costs were consistent for the quarter ended September 30, 2014 at $1.95/boe compared to $2.08/boe for the comparative quarter ended September 30, 2013. Year-to-date, transportation expenses decreased 22% to $1.53/boe in 2014 from $1.96/boe in 2013. The Company reduced transportation expenses from the comparative periods in Northeast BC 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.

OPERATING NETBACK	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Oil and NGLs ($/bbl)						
Revenue	**79.72**	81.77	(3)	**87.14**	86.45	1
Royalties	**(4.42)**	-	na	**(2.92)**	-	na
Production expenses	**(6.65)**	(8.64)	(23)	**(6.78)**	(9.87)	(31)
Transportation expenses	**(5.01)**	(7.91)	(37)	**(3.39)**	(8.62)	(61)
Operating netback	**63.64**	65.22	(2)	**74.05**	67.96	9
Natural gas ($/mcf)						
Revenue	**4.51**	2.67	69	**5.18**	3.46	50
Royalties	**(0.29)**	-	na	**(0.22)**	-	na
Production expenses	**(1.11)**	(1.44)	(23)	**(1.13)**	(1.70)	(34)
Transportation expenses	**(0.25)**	(0.24)	4	**(0.19)**	(0.24)	(21)
Operating netback	**2.86**	0.99	189	**3.64**	1.52	139
Combined ($/boe)						
Revenue	**34.12**	22.59	51	**40.37**	25.62	58
Royalties	**(2.13)**	-	na	**(1.57)**	-	na
Production expenses	**(6.65)**	(8.64)	(23)	**(6.77)**	(10.17)	(33)
Transportation expenses	**(1.95)**	(2.08)	(6)	**(1.53)**	(1.96)	(22)
Operating netback	**23.39**	11.87	97	**30.50**	13.49	126

During the third quarter of 2014, Leucrotta generated an operating netback of $23.39/boe, up 97% from $11.87/boe for the third quarter of 2013. Year-to-date 2014, Leucrotta generated an operating netback of $30.50/boe, up 126% compared to $13.49/boe in the comparative period. These increases were due to significant increases in natural gas prices and reduced production expenses partially offset by increased royalties.

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

	Three Months Ended September 30			Nine Months Ended September 30		
($/boe)	**2014**	2013	% Change	**2014**	2013	% Change
Operating netback (non-GAAP)	**23.39**	11.87	97	**30.50**	13.49	126
Depletion and depreciation	**(11.23)**	(10.43)	8	**(11.39)**	(9.87)	15
General and administrative expenses	**(4.49)**	(4.41)	2	**(4.07)**	(3.02)	35
Share based compensation	**(3.25)**	(1.75)	86	**(1.93)**	(1.06)	82
Finance expenses	**(2.17)**	(9.31)	(77)	**(4.60)**	(6.59)	(30)
Deferred tax recovery (expense)	**(1.36)**	3.16	(143)	**(2.66)**	1.53	(274)
Net earnings (loss) (GAAP)	**0.89**	(10.87)	108	**5.85**	(5.52)	206

DEPLETION AND DEPRECIATION	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Depletion and depreciation ($000s)	**2,497**	1,030	142	**6,354**	2,868	122
Depletion and depreciation ($/boe)	**11.23**	10.43	8	**11.39**	9.87	15

Depletion and depreciation for the three months ended September 30, 2014 was $11.23/boe, up 8% from $10.43/boe for the comparative period ended September 30, 2013. Year-to-date, depletion and depreciation was up 15% to $11.39/boe in 2014 from $9.87/boe in 2013. Depletion and depreciation in Q3 2014 was consistent with depletion and depreciation of $10.62/boe for the previous quarter ended June 30, 2014.

GENERAL AND ADMINISTRATIVE	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
G&A expenses (gross)	**1,019**	656	55	**2,629**	1,203	119
G&A capitalized	**-**	(65)	(100)	**(96)**	(103)	(7)
G&A recoveries	**(21)**	(155)	(86)	**(262)**	(224)	17
G&A expenses (net)	**998**	436	129	**2,271**	876	159
G&A expenses ($/boe)	**4.49**	4.41	2	**4.07**	3.02	35

General and administrative expenses ("G&A") increased to $4.49/boe and $4.07/boe for the three and nine months ended September 30, 2014, respectively, compared to $4.41/boe and $3.02/boe for the three and nine months ended September 30, 2013. The increase 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. This allocation is not reflective of the Company's G&A after August 6, 2014.

SHARE BASED COMPENSATION	Three Months Ended September 30			Nine Months Ended September 30		
	2014	2013	% Change	**2014**	2013	% Change
Share based compensation ($000s)	**724**	173	318	**1,076**	308	249
Share based compensation ($/boe)	**3.25**	1.75	86	**1.93**	1.06	82

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 purchase warrants was measured based on the Black-Scholes-Merton option-pricing model.

Share based compensation expense increased to $0.7 million ($3.25/boe) for the three months ended September 30, 2014 from $0.2 million ($1.75/boe) in the comparative period. Year-to-date, share based compensation expense increased to $1.1 million ($1.93/boe) in 2014 from $0.3 million ($1.06/boe) in 2013. The significant increase was due to the warrants issued in Q3 2014.

FINANCE EXPENSES	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Interest expense	**464**	916	(49)	**2,526**	1,904	33
Accretion of decommissioning obligations	**17**	4	325	**40**	11	264
Finance expenses	**481**	920	(48)	**2,566**	1,915	34
Finance expenses ($/boe)	**2.17**	9.31	(77)	**4.60**	6.59	(30)

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.

DEFERRED INCOME TAXES

Deferred income tax expense on earnings before taxes for the three and nine months ended September 30, 2014 were $0.3 million and $1.5 million, respectively, compared to deferred income tax recovery on loss before taxes of $0.3 million and $0.4 million for the comparative periods. The deferred income tax expense was slightly 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 September 30, 2014 total approximately $190.6 million (December 31, 2013 - $80.6 million).

FUNDS FROM OPERATIONS

Funds from operations for the three and nine months ended September 30, 2014 were $3.7 million ($0.03 per basic and diluted share) and $12.2 million ($0.11 per basic and diluted share), respectively, compared to $0.2 million deficiency ($nil per basic and diluted share) and $1.1 million ($0.01 per basic and diluted share) for the three and nine months ended September 30, 2013. The increases were mainly due to significant increases in revenue which resulted from higher production and natural gas prices.

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

	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Cash flow from (used in) operating activities (GAAP)	**3,409**	(554)	715	**12,491**	1,170	968
Add back:						
Change in non-cash working capital	**331**	375	(12)	**(276)**	(29)	852
Funds from operations (non-GAAP)	**3,740**	(179)	2,189	**12,215**	1,141	971

NET EARNINGS

The Company had net earnings of $0.2 million ($nil per diluted share) for the three months ended September 30, 2014 compared to net loss of $1.1 million ($0.01 loss per diluted share) for the comparative period in 2013. Year-to-date, the Company had net earnings of $3.3 million ($0.03 per diluted share) in 2014 compared to net loss of $1.6 million ($0.02 loss per diluted share) in 2013. The increases in net earnings were mainly due to significant increases in revenue which resulted from higher production and natural gas prices.

CAPITAL EXPENDITURES	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2014**	2013	% Change	**2014**	2013	% Change
Property acquisitions [1]	**27,802**	-	100	**31,604**	-	100
Land	**501**	26	1,827	**22,148**	169	13,005
Drilling, completions, and workovers	**116**	14,199	(99)	**7,876**	15,768	(50)
Equipment	**2,516**	4,463	(44)	**5,534**	9,537	(42)
Geological and geophysical	**302**	264	14	**414**	418	(1)
Office equipment	**58**	-	100	**58**	-	100
Total expenditures	**31,295**	18,952	65	**67,634**	25,892	161

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

For the three months ended September 30, 2014, the Company had capital expenditures of $31.3 million compared to capital expenditures of $19.0 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, the Company had capital expenditures of $67.6 million compared to $25.9 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. $28.3 million of the expenditures was for property acquisitions and crown land purchases in Q3 2014. Through the property acquisitions and crown land purchases, the Company acquired 70,900 gross (60,800 net) acres of Montney rights in exchange for $17.9 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. The Company also spent $25.4 million in the first six months of the year adding 29,800 gross (28,100 net) acres of Montney rights through various property acquisitions and crown land purchases.

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

LIQUIDITY AND CAPITAL RESOURCES

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

($000s)	**September 30, 2014**	December 31, 2013	% Change
Current assets	**60,952**	2,460	2,378
Less:			
Current liabilities	**(3,190)**	(3,760)	(15)
Working capital (deficiency)	**57,762**	(1,300)	4,543

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 September 30, 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 September 30, 2014, the Company had working capital of $57.8 million and $nil had been drawn on the revolving credit facility.

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 September 30, 2014:

($000s)	Total	Less than One Year	One to Three Years	After Three Years
Accounts payable and accrued liabilities	3,190	3,190	-	-
Decommissioning obligations	6,154	-	-	6,154
Office leases	2,295	534	1,166	595
Firm transportation agreements	260	240	20	-
Total contractual obligations	11,899	3,964	1,186	6,749

Subsequent to September 30, 2014, the Company committed to $4.8 million over the next one year relating to equipment purchases for additions to its natural gas plant in Northeast BC.

Subsequent to September 30, 2014, the Company committed to firm transportation for its natural gas over 5 years commencing December 1, 2015 for a total of $52.5 million. The yearly commitment is as follows: 2015 - $0.5 million; 2016 - $6.5 million; 2017 - $9.9 million; 2018 - $12.6 million; 2019 - $12.6 million; 2017 - $10.4 million.

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)	**September 30, 2014**	November 24, 2014
Voting common shares	**165,227**	165,227
Warrants	**15,150**	15,150
Total	**180,377**	180,377

SUMMARY OF QUARTERLY RESULTS

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Average Daily Production								
Oil and NGLs (bbls/d)	**325**	337	357	305	107	69	60	27
Natural gas (mcf/d)	**12,548**	9,330	8,753	8,387	5,797	5,565	6,388	1,709
Combined (boe/d)	**2,416**	1,892	1,815	1,703	1,074	996	1,125	312
($000s, except per share amounts)								
Oil and natural gas sales	**7,586**	7,110	7,825	5,062	2,231	2,583	2,633	1,281
Funds from operations	**3,740**	3,626	4,848	2,430	(179)	652	669	(264)
Per share - basic and diluted	**0.03**	0.03	0.05	0.02	-	0.01	0.01	-
Net earnings (loss)	**199**	887	2,175	333	(1,080)	(222)	(307)	(955)
Per share - basic and diluted	**-**	0.01	0.02	-	(0.01)	-	-	(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 Q3 2014 from Q2 2014 was mainly due to increased share based compensation resulting from the warrants issued in Q3 2014.

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 September 30, 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 September 30, 2014, $3.1 million (100%) of the Company's outstanding accounts receivable were current. During the period ended September 30, 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.

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.

Leucrotta Exploration Inc.
Statements of Financial Position
(unaudited)

($000s)	Note	September 30 2014	December 31 2013
Assets			
Current assets			
Cash and cash equivalents		**57,718**	-
Accounts receivable		**3,071**	2,302
Prepaid expenses and deposits		**163**	158
		60,952	2,460
Property, plant, and equipment	(6)	**76,450**	62,756
Exploration and evaluation assets	(7)	**75,141**	22,948
Deferred income taxes	(16)	**11,520**	-
		163,111	85,704
		224,063	88,164
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**3,190**	3,760
Decommissioning obligations	(9)	**6,154**	1,546
Deferred income taxes	(16)	**-**	895
		9,344	6,201
Shareholders' Equity			
Shareholders' capital	(11)	**283,698**	-
Contributed surplus		**625**	1,824
Net investment in BC assets	(10)	**-**	80,139
Reserve from common-control transaction	(4,10)	**(69,341)**	-
Deficit		**(263)**	-
		214,719	81,963
		224,063	88,164

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

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

($000s, except per share amounts)	Note	Three Months Ended September 30 2014	2013	Nine Months Ended September 30 2014	2013
Revenue					
Oil and natual gas sales		**7,586**	2,231	**22,521**	7,447
Royalties		**(472)**	-	**(878)**	-
		7,114	2,231	**21,643**	7,447
Expenses					
Production		**1,478**	853	**3,775**	2,955
Transportation		**434**	205	**856**	571
Depletion and depreciation	(6,7)	**2,497**	1,030	**6,354**	2,868
General and administrative		**998**	436	**2,271**	876
Share based compensation	(12)	**724**	173	**1,076**	308
Finance expense	(15)	**481**	920	**2,566**	1,915
		6,612	3,617	**16,898**	9,493
Earnings (loss) before taxes		**502**	(1,386)	**4,745**	(2,046)
Taxes					
Deferred income tax expense (recovery)	(16)	**303**	(306)	**1,484**	(437)
Net earnings (loss) and comprehensive earnings (loss)		**199**	(1,080)	**3,261**	(1,609)
Net earnings (loss) per share					
Basic and diluted	(13)	-	(0.01)	**0.03**	(0.02)

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

Leucrotta Exploration Inc.
Statements of Shareholders' Equity

(unaudited) ($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		-	(1,609)	-	-	-	(1,609)
Net contributions from Crocotta Energy Inc.	(10)	-	24,385	-	-	-	24,385
Share based compensation		-	-	333	-	-	333
Balance, September 30, 2013		-	65,366	1,524	-	-	66,890
Net earnings		-	333	-	-	-	333
Net contributions from Crocotta Energy Inc.	(10)	-	14,440	-	-	-	14,440
Share based compensation		-	-	300	-	-	300
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	-	-	(263)	3,261
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)	-	(14,973)	-	-	-	(14,973)
Issue of share capital	(4,11)	283,253	(110,201)	-	(69,341)	-	103,711
Share issue costs, net of tax		(1,869)	-	-	-	-	(1,869)
Share based compensation		-	-	1,115	-	-	1,115
Balance, September 30, 2014		283,698	-	625	(69,341)	(263)	214,719

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

Leucrotta Exploration Inc.
Statements of Cash Flows

(unaudited)		Three Months Ended September 30		Nine Months Ended September 30	
($000s)	**Note**	**2014**	2013	**2014**	2013
Operating Activities					
Net earnings (loss)		**199**	(1,080)	**3,261**	(1,609)
Depletion and depreciation	(6,7)	**2,497**	1,030	**6,354**	2,868
Share based compensation	(12)	**724**	173	**1,076**	308
Finance expense	(15)	**481**	920	**2,566**	1,915
Interest paid		**(464)**	(916)	**(2,526)**	(1,904)
Deferred income tax expense (recovery)	(16)	**303**	(306)	**1,484**	(437)
Change in non-cash working capital	(21)	**(331)**	(375)	**276**	29
		3,409	(554)	**12,491**	1,170
Financing Activities					
Repayment of debt assumed from Crocotta Energy Inc.	(4)	**(14,973)**	-	**(14,973)**	-
Net contributions from (distributions to) Crocotta Energy Inc.	(10)	**(1,037)**	16,517	**28,252**	24,385
Issuance of shares	(11)	**93,297**	-	**93,297**	-
Share issue costs	(11)	**(2,509)**	-	**(2,509)**	-
		74,778	16,517	**104,067**	24,385
Investing Activities					
Capital expenditures - property, plant, and equipment	(6)	**(4,703)**	(13,650)	**(15,138)**	(20,248)
Capital expenditures - exploration and evaluation assets	(7)	**(16,178)**	(5,303)	**(42,082)**	(5,643)
Change in non-cash working capital	(21)	**412**	2,990	**(1,620)**	336
		(20,469)	(15,963)	**(58,840)**	(25,555)
Change in cash and cash equivalents		**57,718**	-	**57,718**	-
Cash and cash equivalents, beginning of period		**-**	-	**-**	-
Cash and cash equivalents, end of period		**57,718**	-	**57,718**	-

The accompanying notes are an integral part of these interim 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 interim 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 interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The interim financial statements were authorized for issuance by the Board of Directors on November 24, 2014.

(b) Basis of measurement

The interim 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 interim 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 interim 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 interim 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 interim 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 interim 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 interim 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 interim financial statements in future periods could be material.

Decommissioning obligations
Amounts recorded for decommissioning obligations and the related accretion expense 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 interim 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. Determining the type of joint arrangement as either joint operation or joint venture is based on management's assumptions of whether it has joint control over another entity. The considerations include, but are not limited to, determining if the arrangement is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity direct rights to the assets and obligations for the liabilities within the normal course of business. For a joint operation the interim 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.

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). The Company capitalizes the cost of major plant turnarounds and overhauls and depreciates these costs over their estimated useful life of three or four years, depending on each plant.

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. For plant turnarounds and overhauls, the Company has estimated an average useful life of three or four years, depending on each plant, before further work must be performed and depreciates these costs using the straight-line method over the corresponding useful life.

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 to sell.

Fair value less costs to sell 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 to sell, 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 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 interim 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 interim 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 interim financial statements.

(n) New standards and interpretations not yet adopted

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	14,973
Issuance of common shares (105,613 at $1.70 per common share)	179,542
Reserve from common-control transaction	(69,341)
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.

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	13,255
Decommissioning obligations	(892)
	15,086

Consideration	
Cash	7,785
Issuance of common shares (3,318 at $2.20 per common share)	7,301
	15,086

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 interim financial statements incorporate the operations of the acquired properties commencing September 10, 2014. During the period from September 10, 2014 to September 30, 2014, the Company recorded revenues of $0.2 million and net earnings of $nil in respect of these properties. If the acquisition had occurred on January 1, 2014, total revenue of $2.2 million and net earnings of $1.2 million would have been recorded for the nine months ended September 30, 2014.

(b) Other

The Company closed six other property acquisitions during the nine months ended September 30, 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 $16.5 million comprised of $13.4 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	36,346
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	70,058
Additions	**15,138**
Transfer from exploration and evaluation assets	**789**
Change in decommissioning obligation estimates	**3,676**
Capitalized share based compensation	**39**
Balance, September 30, 2014	**89,700**

Accumulated Depletion, Depreciation, and Impairment	Total
Balance, January 1, 2013	2,859
Depletion and depreciation	4,443
Balance, December 31, 2013	7,302
Depletion and depreciation	**5,948**
Balance, September 30, 2014	**13,250**

Net Book Value	Total
January 1, 2013	33,487
December 31, 2013	62,756
September 30, 2014	**76,450**

During the three and nine months ended September 30, 2014, approximately $nil (2013 – $0.2 million) and $0.3 million (2013 - $0.2 million), respectively, 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 three months ended September 30, 2014 included an estimated $72.0 million (2013 - $61.1 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately $2.2 million (2013 - $0.8 million) for the estimated salvage value of production equipment and facilities.

7. EXPLORATION AND EVALUATION ASSETS

Balance, January 1, 2013	15,849
Additions	16,497
Transfer to property, plant, and equipment	(9,398)
Balance, December 31, 2013	22,948
Additions	**53,388**
Transfer to property, plant, and equipment	**(789)**
Lease expiries	**(406)**
Balance, September 30, 2014	**75,141**

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 nine months ended September 30, 2014 related to Northeast BC.

Lease expiries of $0.4 million for the nine months ended September 30, 2014 have been included in depletion and depreciation on the interim 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 September 30, 2014, $nil had been drawn on the revolving credit facility. At September 30, 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 September 30, 2014.

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 $13.2 million which is estimated to be incurred over the next 43 years. At September 30, 2014, a risk-free rate of 2.6% (December 31, 2013 – 3.1%) was used to calculate the net present value of the decommissioning obligations.

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Balance, beginning of period	**1,546**	598
Provisions incurred	**205**	1,013
Acquisitions	**892**	-
Revaluation of liabilities acquired	**2,582**	-
Revisions	**889**	(88)
Accretion	**40**	23
Balance, end of period	**6,154**	1,546

Revaluation of liabilities acquired is the revaluation of acquired decommissioning obligations at the end of the period 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 interim financial statements. The net investment in BC Assets is comprised of accumulated net earnings (loss) of the operations and the accumulated net contributions from and distributions to 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 interim 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:

	Nine Months Ended September 30, 2014	Year Ended December 31, 2013
Balance, beginning of period	**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	**(14,973)**	-
Common shares issued on common-control transaction	**(179,542)**	-
Transfer to reserve from common-control transaction	**69,341**	-
Balance, end of period	**-**	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 $0.6 million	-	(1,869)
Balance, September 30, 2014	**165,227**	**283,698**

Arrangement Warrants	Number
Balance, January 1, 2013 and December 31, 2013	-
Issued upon Arrangement	21,123
Exercised	(20,760)
Expired	(363)
Balance, September 30, 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.

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.

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 10 years. At September 30, 2014, there were no options outstanding.

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 ($0.3 million and $nil was recognized as an expense and capital addition, respectively, for the period from January 1, 2013 to September 30, 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 5 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, September 30, 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, September 30, 2014	**7,500**	**1.70**
Exercisable, September 30, 2014	-	-

During the period ended September 30, 2014, the Company recognized $0.3 million of share based compensation related to the performance warrants. At September 30, 2014 there was $4.7 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	Exercise Price
Balance, January 1, 2013 and December 31, 2013	-	-
Granted	7,650	2.04
Exercised	-	-
Expired	-	-
Balance, September 30, 2014	**7,650**	**2.04**
Exercisable, September 30, 2014	-	-

During the period ended September 30, 2014, the Company recognized $0.3 million of share based compensation related to the purchase warrants. At September 30, 2014 there was $4.1 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 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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Risk-free interest rate (%)	**na**	1.6	**1.5**	1.6
Expected life (years)	**na**	4.0	**4.0**	4.0
Expected volatility (%)	**na**	51.4	**48.4**	51.6
Expected dividend yield (%)	**na**	-	**-**	-
Forfeiture rate (%)	**na**	5.9	**5.7**	5.9
Weighted average fair value of options granted ($ per option)	**na**	1.14	**1.11**	1.15

Crocotta did not issue any stock options during the three months ended September 30, 2014.

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

	Performance Warrants	Purchase Warrants
Risk-free interest rate (%)	1.5	1.7
Expected life (years)	3.4	4.0
Expected volatility (%)	54.6	54.6
Expected dividend yield (%)	-	-
Forfeiture rate (%)	5.7	5.7
Weighted average fair value of warrants ($ per warrant)	0.70	0.64

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 September 30, 2014 there were 7.5 million performance warrants and 7.7 million purchase warrants that were anti-dilutive.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Weighted average number of shares - basic	**128,186**	105,613	**113,220**	105,613
Dilutive effect of share based compensation plans	**-**	-	**-**	-
Weighted average number of shares - diluted	**128,186**	105,613	**113,220**	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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Short-term wages and benefits	**437**	292	**1,270**	517
Share based compensation (1)	**611**	90	**835**	170
Total (2) (3)	**1,048**	382	**2,105**	687

(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 September 30, 2014 were $nil (2013 - $0.2 million).
(3) At September 30, 2014, key management personnel included 12 individuals (2013 – 15 individuals).

15. FINANCE EXPENSES

Finance expenses include the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Interest expense	**464**	916	**2,526**	1,904
Accretion of decommissioning obligations	**17**	4	**40**	11
Finance expenses	**481**	920	**2,566**	1,915

16. INCOME TAXES

(a) The provision for income taxes in the interim 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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	2013	**2014**	2013
Earnings (loss) before taxes	**502**	(1,386)	**4,745**	(2,046)
Statutory income tax rate	**25.5%**	25.5%	**25.5%**	25.5%
Expected income tax expense (reduction)	**128**	(353)	**1,210**	(522)
Increase in income taxes resulting from:				
Share based compensation and other non-deductible amounts	**175**	47	**274**	85
	303	(306)	**1,484**	(437)

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 nine months ended September 30, 2014 and year ended December 31, 2013 are as follows:

2014	**Balance January 1, 2014**	**Recognized in Earnings or Loss**	**Recognized in Equity**	**Recognized in Common-Control Transaction**	**Balance September 30, 2014**
Deferred income tax assets (liabilities):					
Oil and natural gas properties and equipment	(1,289)	(2,640)	-	13,259	9,330
Decommissioning obligations	394	1,175	-	-	1,569
Share issue costs	-	(19)	640	-	621
Net deferred income tax asset (liability)	(895)	(1,484)	640	13,259	11,520

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 September 30, 2014, the Company has estimated federal tax pools of $190.6 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 future tax asset recognized in the common-control transaction of $13.9 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 September 30, 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 nine month periods ended September 30, 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 September 30, 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 $0.2 million for the three months ended September 30, 2014 (2013 - $0.1 million) and $0.4 million for the nine months ended September 30, 2014 (2013 - $0.2 million).

The Company did not enter into commodity price contracts to manage future cash flows as at September 30, 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 September 30, 2014, $3.1 million (100%) of the Company's outstanding accounts receivable were current. During the period ended September 30, 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.

See note 22 for a summary of contractual maturities of financial liabilities at September 30, 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.

	September 30, 2014	December 31, 2013
Shareholders' equity	**214,719**	81,963
Working capital (deficiency)	**57,762**	(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 on-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 three and nine months ended September 30, 2014 are $0.7 million and $1.5 million of wages and benefits, respectively (2013 - $0.5 million and $0.8 million, respectively).

21. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2014	**2013**	**2014**	**2013**
Accounts receivable	**(1,238)**	(709)	**(769)**	(467)
Prepaid expenses and deposits	**(55)**	(11)	**(5)**	21
Accounts payable and accrued liabilities	**1,374**	3,335	**(570)**	811
Change in non-cash working capital	**81**	2,615	**(1,344)**	365
Relating to:				
Investing	**412**	2,990	**(1,620)**	336
Operating	**(331)**	(375)	**276**	29
Change in non-cash working capital	**81**	2,615	**(1,344)**	365

22. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at September 30, 2014:

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**	**Total**
Office leases	48	583	583	585	496	-	2,295
Firm transportation agreements	60	200	-	-	-	-	260
	108	783	583	585	496	-	2,555

Subsequent to September 30, 2014, the Company committed to $4.8 million over the next one year relating to equipment purchases for additions to its natural gas plant in Northeast BC.

Subsequent to September 30, 2014, the Company committed to firm transportation for its natural gas over 5 years commencing December 1, 2015 for a total of $52.5 million. The yearly commitment is as follows: 2015 - $0.5 million; 2016 - $6.5 million; 2017 - $9.9 million; 2018 - $12.6 million; 2019 - $12.6 million; 2017 - $10.4 million.