

**LONG RUN EXPLORATION LTD.**  
**LRE-TSX: \$4.09**

**RECOMMENDATION: BUY**  
**TARGET PRICE: \$7.00**

**INITIATING COVERAGE – MARKET VALUE TO ASSET VALUE DISCONNECT**

FORECAST (2013E)	CURRENT	PREVIOUS	% Δ
Recommendation	BUY	--	
Target Price	\$7.00	--	n/m
Target EV/DACF multiple	5.1X	--	n/m
Production (boed)	25,010	--	n/m
CFPS	\$1.73	--	n/m
Net Debt	\$287.1	--	n/m

SHARE STRUCTURE	2013E
Shares O/S (basic, mm)	125.62
Dilutives O/S (mm)	10.34
Shares O/S (FD, mm)	135.96
Management & Directors (basic)	2.3%
52-week trading range (low/high)	\$3.71 \$5.38

ENTERPRISE VALUE	2013E
Market cap. (\$mm)	\$513.8
Preferred shares	--
Working capital deficit (surplus)	\$287.1
Long Term Debt	--
Enterprise Value (basic)	\$800.9

FINANCIAL	2012A	2013E	2014E
EV/DACF multiple	6.3X	3.4X	2.6X
P/CF	3.3X	2.4X	1.8X
CFPS (basic)	\$1.41	\$1.73	\$2.27
Cash Flow (C\$'000s)	\$128.7	\$216.9	\$285.5
CapEx (E&D)	\$210.4	\$265.0	\$265.0
Net Debt/CF	2.2X	1.3X	0.9X
WTI oil (\$US/bbl)	\$95.14	\$94.16	\$86.50
AECO-C (\$C/mcf)	\$3.62	\$2.44	\$3.48

PRODUCTION	2012A	2013E	2014E
Oil (bpd)	7,569	11,564	14,374
NGLs (bpd)	1,007	1,441	1,565
Natural gas (mmcf)	27.7	72.0	78.2
Equivalent (6:1 boed)	13,189	25,010	28,980



*Formed in October 2012, Long Run Exploration Ltd. ("Long Run", "LRE", or the "Company") is the combined product of Guide Exploration Ltd. and Westfire Energy Ltd.*

*Senior Management were key executives at senior producer Penn West Petroleum Ltd. (PWT-TSX) since the early 1990s.*

*Current market valuation suggests Long Run is appreciably undervalued relative to peers given current asset values.*

*Saskatchewan asset disposition reduced debt to very reasonable levels.*

*Enormous value in ~300,000 acres of prospective Duvernay shale rights that is not impounded in LRE's current valuation.*

*Drilling results so far from an active 2013 program are exceeding expectations.*

*Initiating coverage with a **BUY** recommendation and a \$7.00 12-month target price.*

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## INVESTMENT SUMMARY

We initiate coverage of Long Run with a BUY recommendation and \$7.00 12-month target price based on numerous positive factors as follows:

### A REORGANIZED INTERMEDIATE-SIZE GROWTH VEHICLE

Long Run is the product of a reverse takeover between Westfire Energy Ltd.'s and Guide Exploration Ltd. which closed on October 23, 2012. The resulting Company is a growth-oriented intermediate-size producer (25,000 boed, 50% liquids) with experienced management, significant growth opportunities on existing land and a clean balance sheet.

### EXPERIENCED MANAGEMENT WITH VERY GOOD TRACK RECORD

Management largely came from senior producer Penn West Petroleum prior to assuming control of Guide Exploration (formerly Galleon Energy Inc.). Both Long Run's current Chairman/Chief Executive Officer and its current President were at Penn West in senior positions since the early 1990's and therefore have a wealth of experience in large-scale drilling and acquisitions. We believe Long Run's experienced management team will be a key driver in its long term success.

### SIGNIFICANT MARKET VALUE TO ASSET VALUE DISCREPANCY

Our peer analysis and comparison indicate Long Run is appreciably undervalued in terms of current production, reserves, net asset value and in undeveloped acreage. In our view, the marketplace will recognize that and will bid up Long Run's valuation as financial and operating results are posted through the next several quarters.

### RECOMMENDATION AND TARGET PRICE

Long Run has all the elements to be a very successful and efficient oil & gas producer. The various elements making up the Company clearly indicate it should be trading to a higher valuation; the only missing element being operating history as the combined company between Guide and Westfire.

We use a conservative 4.0X enterprise value to debt adjusted cash flow multiple ("EV/DACF"), plus a partial component of our calculated net present value of future drilling in setting our target price. A 4.0X EV/DACF target multiple equates to \$5.10 per share in value, a 15% excess over its current trading level. To that we add only one year of value of a five-year development drilling scenario, or \$1.80 per share in value. With that, **we initiate coverage of Long Run with a BUY recommendation with a \$7.00 12-month target price.**

## MANAGEMENT & DIRECTORS

### *Exhibit 1 – Long Run Board of Directors*

Name	Principle Occupations During the Past Five Years
William E. Andrew, P.Eng.	Chairman since August 2011 (formerly Guide Exploration Ltd.); see Senior Management below (Exhibit 2).
John A. Brussa, BA, LL.B.	Director since May 2003 (formerly Guide Exploration Ltd.) and Director since December 2007 (formerly Westfire Energy Ltd.); current partner Burnet, Duckworth & Palmer LLP; director of numerous public and private oil & gas companies.
Edward Chwyl	Director since December 2007 (formerly Westfire Energy Ltd.); current Director Baytex Energy Corp.
Paul Dimitriadis, BA, LL.B.	Director since October 2012; current Chief Operating Officer Sprott Consulting and Sprott Resource Corp.
Jeffery E. Errico, P.Eng.	Director since November 2011 (formerly Guide Exploration Ltd.); current Chairman Insignia Energy Ltd.; Director Inter Pipeline Fund, Crew Energy Inc.; Past President & CEO Petrofund Energy.
Michael M. Graham, P.Eng.	Director since October 2012; independent businessman; past Executive Vice President & President Canadian Division EnCana Corporation.
Michael McGovern	Director since July 2008 (formerly Westfire Energy Ltd.); current Executive Advisor Cadent Energy Partners LLC, past President & CEO Pioneer Companies Inc.
Dale A. Miller	Director since August 2011 (formerly Guide Exploration Ltd.); see Senior Management below (Exhibit 2).
Brad R. Munro, B.Comm.	Director since January 2004 (formerly Guide Exploration Ltd.); current President & CEO Bittercreek Capital Corp.; current Vice President, Investments Growthworks Capital Ltd.
Patricia M. Newson, CA	Director since June 2011 (formerly Guide Exploration Ltd.); current Chairman Heritage Gas Ltd.; director Brookfield Residential Properties; director QUEST Canada; member Alberta Securities Commission Financial Advisory Committee.

*Source: Company Reports*

Of the ten Long Run Directors, six came via Guide, three via Westfire, and two were not on either Guide or Westfire Boards. John Brussa was on both Guide and Westfire Boards and is therefore counted twice.

Sprott Resource Corp. is the largest institutional owner of Long Run, currently owning 20,142,000 shares (16%) according to publicly available data and is the reason Paul Dimitriadis is now on Long Run's Board.

Sprott Resource Corp's involvement originally came via Orion Oil & Gas (OIP-TSX) which was subsequently acquired by Westfire on June 30, 2011. Sprott also had a position in Guide Exploration.

**MANAGEMENT & DIRECTORS (CON'T)***Exhibit 2 – Long Run Senior Management*

<b>Name</b>	<b>Management Position</b>	<b>Previous</b>
William E. Andrew, P.Eng.	Chairman & CEO	35+ years oil & gas experience; past Vice Chairman & Senior Executive Officer Penn West Exploration Ltd.
Dale A. Miller	President & Director	30 years oil & gas experience; past Vice President & Chief Operating Officer Pace Oil & Gas Ltd.; Vice President Operations & Engineering Penn West Exploration Ltd.
Corine Bushfield, CA	Vice President, Finance & Accounting	Past Vice President, Assistant Comptroller EnCana Corporation.
Jason Fleury, MBA	Vice President, Capital Markets	Past Senior Manager, Investor Relations Penn West Exploration Ltd.
Jim Iverson, B.Sc., P.Geol.	Vice President, Exploration	31 years diversified experience; Baytex Energy Ltd.; Hadrian Energy Corp.; Wascana Energy Inc.; Alberta Oil & Gas Ltd.; Chieftain Developments Company Ltd.
Dale Orton, B.Eng., P.Eng.	Vice President, Engineering	18 years oil & gas experience; Flowing Energy Corporation; KeyWest Energy Corporation; Velvet Exploration Ltd.; Renaissance Energy Ltd.
Devin Sundstrom, B.Sc., P.Eng.	Vice President, Production	18 years oil & gas experience; Hunt Oil Company; Renaissance Energy Ltd.; Northstar Energy Corporation.
William Tang Kong	Vice President, Corporate Development	25 years oil & gas experience; Senior Vice President Corporate Development Penn West Exploration Ltd.

*Source: Company Reports*

Bill Andrew, Dale Miller, Jason Fluery and William Tang Kong are all previously from Penn West and remain a functional work group at Long Run with a track record of success.

Both Bill Andrew and Dale Miller were at Penn West in senior management positions since the early 1990's and were key participants in growing Penn West over the years via the drill-bit and acquisition, through drilling thousands of wells, several corporate acquisitions, the conversion to a royalty trust, and the conversion back into a dividend paying corporation.

In our view, Long Run executive management has the necessary experience and tools to grow the Company in a swift and cost efficient manner.

## CORPORATE EVOLUTION

Exhibit 3 – Guide/Westfire Combined Metrics

	GUIDE Q2/12A	WESTFIRE Q3/12A	SK VIKING DISPOSITION	LONG RUN PROFORMA	LONG RUN 2012A
Oil (bpd)	4,751	7,185	(1,800)	10,136	7,569
NGL (bpd)	376	669	0	1,045	1,007
Gas (mmcf/d)	59.5	18.2	(0.6)	77	27.7
Production (boed)	15,044	10,890	(1,900)	24,033	13,189
% liquids	32%	66%	95%	42%	57%
Avg. gravity °API	25°	35°	35°	32°	30°
Net debt	\$213	\$171	(\$180)	\$204	\$287
Transaction fees		\$20		\$20	
Total net debt	\$213	\$191	(\$180)	\$224	\$287
Total land (net acres)	1,462,100	399,650	(123,287)	1,738,463	1,734,893
Undeveloped land	635,895	211,663	(88,306)	759,252	762,609
% undeveloped	43%	53%	72%	44%	44%
Proved reserves (mboe)	34,680	31,536	(3,623)	62,593	53,657
Total reserves	52,276	52,995	(6,762)	98,509	83,165
Shares O/S (000's)	102,159	67,456		126,000	125,620
Tax pools	\$600,000	\$685,000		\$1,285,000	\$1,285,000

Reflects only 2 months of combined company

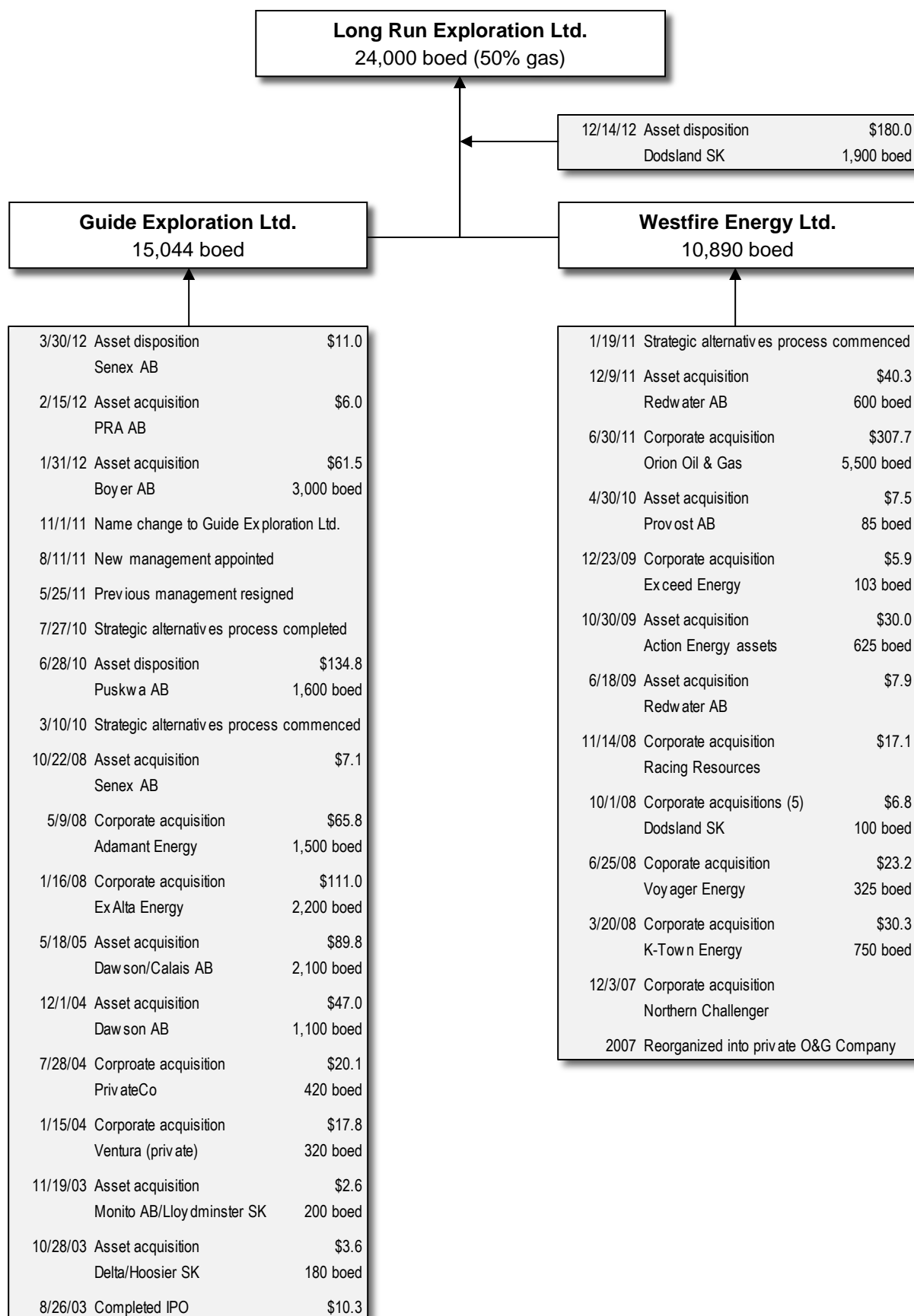
Source: Company Reports

On August 8, 2012, Guide Exploration Ltd. (GO-TSX) and Westfire Energy Ltd. (WFE-TSX) jointly announced a plan of arrangement whereby Guide and Westfire would combine to form Long Run Exploration Ltd., a new intermediate-size oil & gas producer. Westfire was the deemed acquirer and resultantly is the continuing reporting issuer.

The combination closed on October 23, 2012 and resulted in Guide shareholders receiving 0.4167 shares of Long Run for every Guide share previously held. Westfire shareholders exchanged shares on a one-for-one basis. At closing, \$171.1 million of Westfire stock was issued with the assumption of \$264.4 million of Guide net debt for a total \$435.5 million transaction value. Netting out undeveloped land valued at \$150/acre, production was acquired for \$20,358/boed and reserves for \$8.04/boe.

Previous Guide management leads Long Run management but because Westfire acquired Guide (to preserve and maximize tax pools), the transaction was classified as a reverse takeover. The resulting entity is a larger, more liquid, and therefore more financeable, oil & gas producer with a clean balance sheet and years of development growth opportunities ahead of it. The key emphasis will be on cost containment, capital efficiency and balance sheet strength.

## Exhibit 4 – Significant Long Run Transactions



Source: Company Reports, Integral Wealth

## OPERATIONS OVERVIEW

Exhibit 5 – Long Run Areas of Operation



Source: Company Reports, modified by Integral Wealth

Long Run has an impressive land base totaling 1.98 million gross acres (87.6% average working interest) of which 44%, or 880,496 acres, is undeveloped (86.6% average interest).

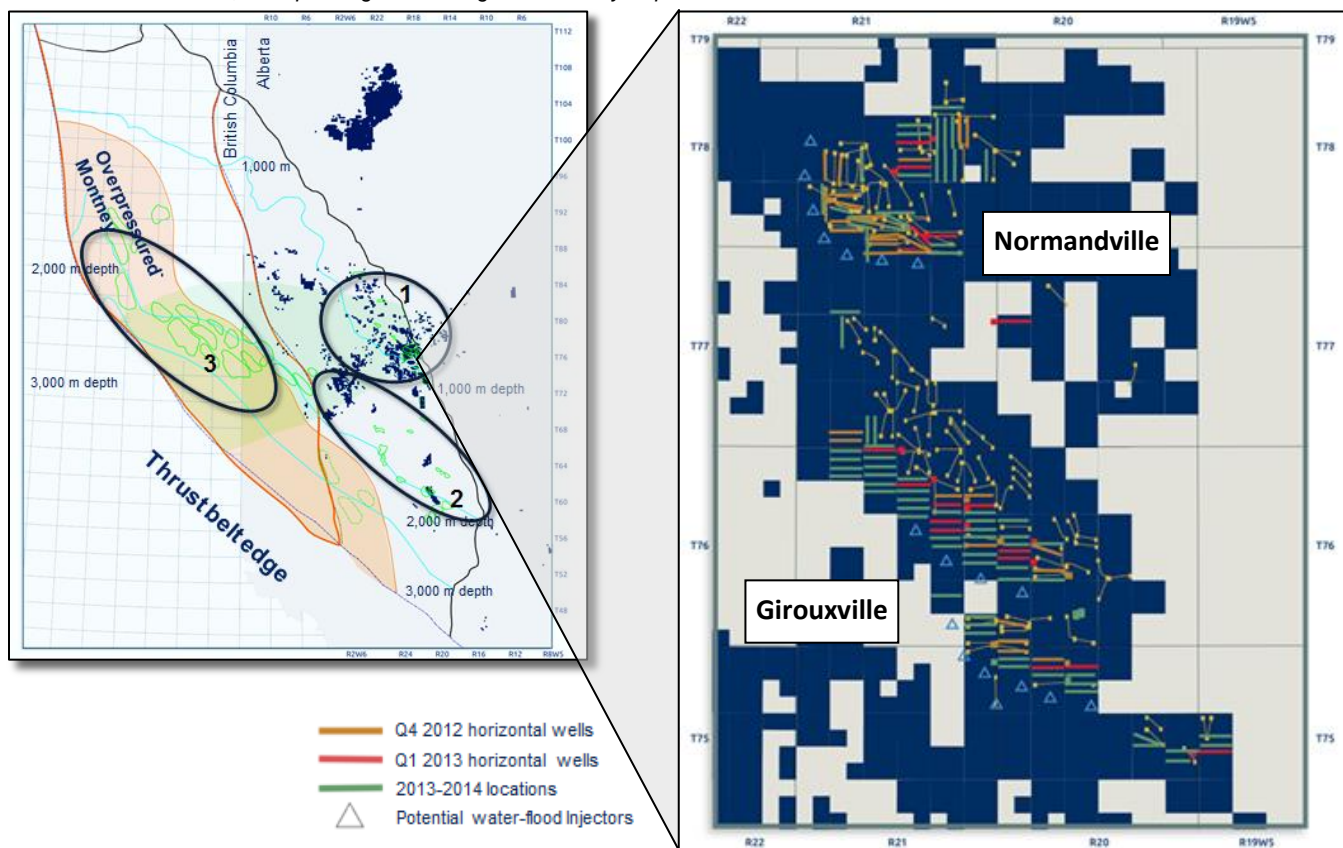
Long Run's three core operating areas are Peace River, Edmonton and Northern. Of the total corporate 880,496 undeveloped acres, 34% are at Peace (Peace River core area), 9.2% at Redwater (Edmonton core area), 13.8% at Boyer (Northern core area) and 1% at Kaybob (just south of the Peace River core area).

Long Run plans on spending \$220 million of its \$265 million total 2013 capital expenditure budget on the drilling, completion and tie-in ("DCT") of new wells. Peace Montney oil drilling represents 50.0% of the total DCT budget, Redwater (Edmonton) Viking oil 37.3%, other oil 11.4% and other gas 1.3%. The remaining \$45 million will be spent on facilities (\$10 million), land/seismic & exploration (\$25 million) and optimization (\$10 million).



## PEACE RIVER, AB OPERATING AREA

Exhibit 6 – Peace River, AB Operating Area & Regional Montney Deposition



Source: Company Reports

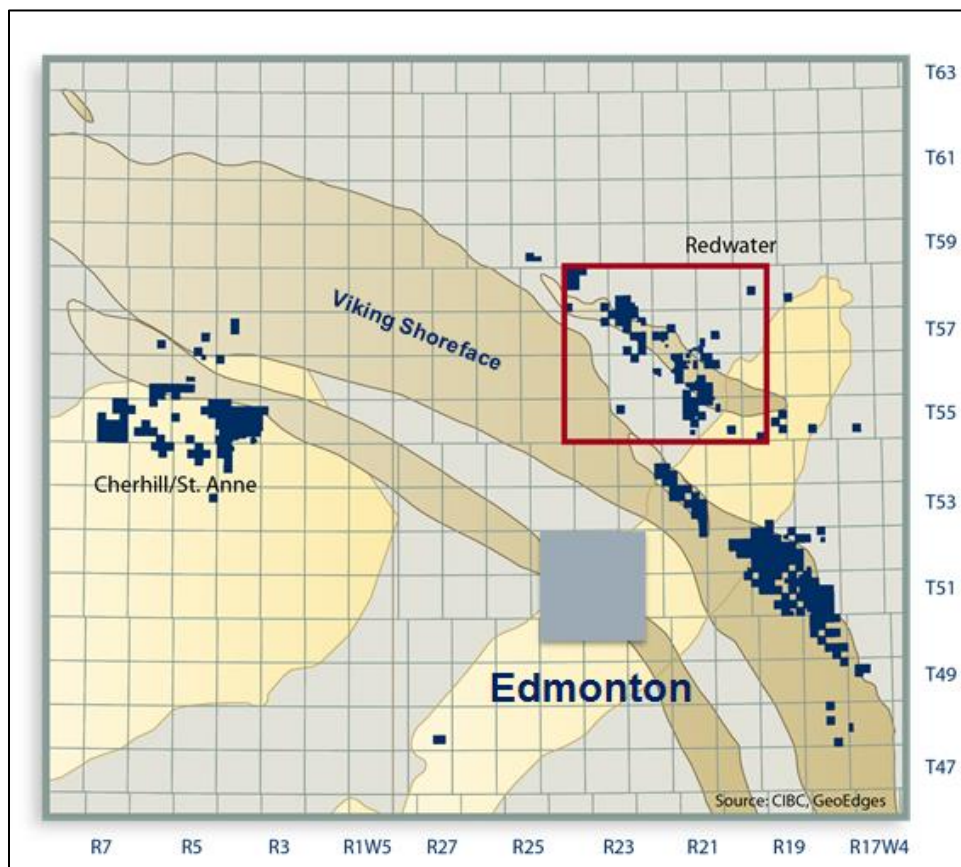
The Peace River core area contains the Worsley, Smoky and Peace areas with activity concentrated at Peace (Normandville/Girouxville). The Triassic Montney formation is the major play-type of interest targeting 28° API oil. Since the corporate combination, Long Run drilled 5 Montney wells in Q4/12 and will have drilled ~15 in Q1/13 with two operated rigs. The remaining 35 locations planned for H2/13, using two operated rigs.

Montney wells are drilled horizontally and completed with ~25 frac stages. The on-stream cost of \$2.05 million yields a 74.9% IRR and a \$3.6 million NPV10 per well. Our type-curve models assume an IP30 rate of 250 boed, but Long Run's newest wells have produced closer to 300 boed in the first 30 days, with the best IP30 so far of ~500 boed. Adjusted for on-time and production decline through 2013, we calculate Montney drilling will add 5,028 boed to Long Run's 2013 average base production rate of 19,040 boed (23,000 boed 2012 exit, adjusted for decline).

Our type-curve economics on the Montney suggest Long Run has 298 risked net locations that represent a \$1.064 billion NPV10 upside; by far the Company's most significant play-type (see Valuation section below).

## EDMONTON, AB OPERATING AREA

Exhibit 7 – Edmonton, AB Operating Area & Regional Viking Deposition



Source: Company Reports

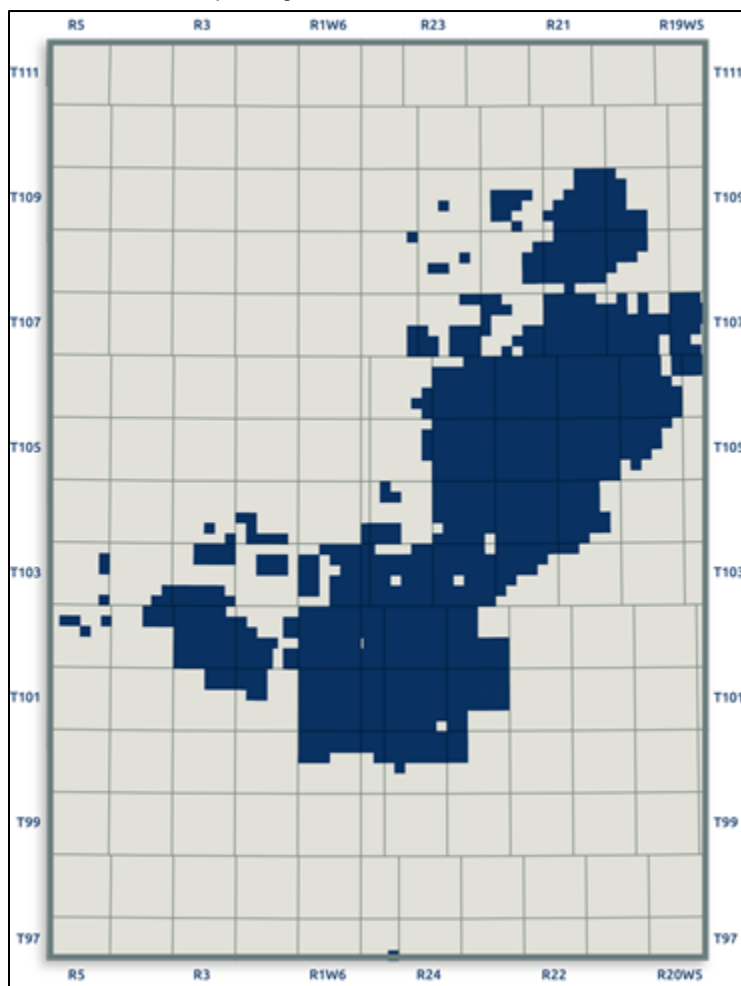
Activity in the Edmonton core area is focused in the Viking formation at Redwater targeting 38° API light oil. Capital expenditures are front-end loaded in 2013 with 31 of Long Run's 68 planned wells drilled in Q1/13 with two operated rigs (3-4 days/well). We forecast all Viking wells collectively contribute 2,156 boed (adjusted for on-stream timing and decline) to its 2013 average 19,040 boed base production rate.

The Viking light oil play at Redwater has turned into a positive surprise for Long Run. Prior wells by Westfire were completed using varying techniques, including burst-port frac systems. Long Run began testing a cemented liner system with a plug-and-perf frac design that has led to better reservoir stimulation and higher IP30 rates. Westfire assumed an average 65 boed IP30 whereas Long Run is experiencing IP30s nearer to 85 boed as a result of their changes.

Our project economics assume an 81.3 boed IP30, resulting in an IRR of 58.1% and an NPV10 of \$1.4 million per single well. We believe Long Run has 301 net locations which calculate to a total \$429 million NPV10 upside (see Valuation section below).

## NORTHERN, AB OPERATING AREA

Exhibit 8 –Northern Operating Area



Source: Company Reports

Long Run purchased the Boyer asset on January 31, 2012 for \$61.5 million. Boyer is located in the northwest corner of Alberta and is an under-developed, sweet dry gas producing property.

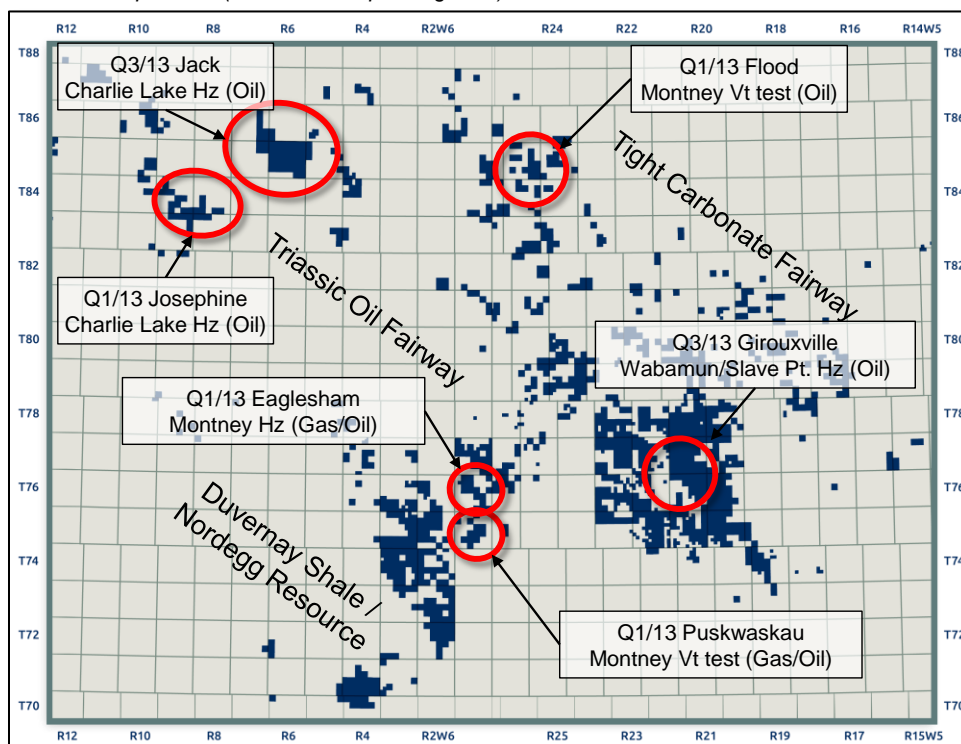
The productive formations are the Cretaceous Bluesky and Gething at shallow depths of 200 to 600 meters. Current production is approximately 19.0 mmcf/d (3,167 boed) and reserves assigned were 87.3 bcf as at December 31, 2012.

This property is characterized by very shallow decline (8% per year) with less than two vertical wells producing per section. With improved gas prices, there is an enormous amount of low risk in-fill drilling to be completed over the property, affording Long Run shareholders significant exposure to rising gas prices.

Long Run has not drilled this property yet due to current low gas prices. Our project economics suggests a single well IRR of only 4.8%.

## EXPLORATION

Exhibit 9 – Exploration (Peace River Operating Area)



Source: Company Reports, modified by Integral Wealth Securities

Long Run has three significant exploration plays in its Peace River core area:

- Triassic oil (Montney, Charlie Lake, Doig and Halfway formations)
- Devonian carbonate oil (Slave Point, Wabamun formations)
- Devonian shale oil (Duvernay formation).

Long Run has over 300,000 acres of Duvernay rights, or about half of Athabasca Oil Corporation's (ATH-TSX) 640,000 acres of Duvernay rights which is thought to be the largest that has been publicly disclosed.

Additionally, EnCana (ECA-TSX) announced on December 13, 2012 a \$1.18 billion Duvernay joint venture with PetroChina which caused Athabasca's stock to increase.

Duvernay wells are expensive and Long Run is unlikely to develop the Duvernay by itself anytime soon as a result. However, the prospectivity of the Duvernay within its lands, given its proprietary core and chip sample analysis, could very well be a hidden asset that shareholders are exposed to that is not included in Long Run's current valuation.

Long Run drilled a vertical test well which was cored, cased, fractured and flowed on initial clean up at 9-6-76-23W5. Production testing took place in February, but results have not yet been made public.

## VALUATION

### COMPARATIVE TYPE-CURVE ECONOMICS

Exhibit 10 – Estimated Well Economics

	PRA Montney	Redwater Viking	Boyer Belly River
<b>Select Input Parameters</b>			
Capital cost	\$2,050,000	\$1,200,000	\$475,000
IP30 (boed)	250.0	81.3	25.0
% Liquids	70.0%	92.3%	0.0%
EUR (boe)	250,058	54,772	50,593
<b>Economic Indicators</b>			
IRR	74.9%	58.1%	4.8%
P/I (@ 10% disc.)	175.6%	120.0%	(24.4%)
NPV (10%, p.t., \$000s)	\$3,570.3	\$1,428.0	(\$114.9)
NPV/boe	\$13.87	\$26.07	(\$2.27)
Cash netback/boed (1st yr)	\$35.86	\$62.54	\$12.21
F&D cost (\$/boe)	\$7.96	\$21.91	\$9.39
Recycle ratio	4.5X	2.9X	1.3X
Onstream cost (\$/boed)	\$13,694	\$27,425	\$26,535
Payback (months)	14	17	123

Source: Integral Wealth Securities

Our economic evaluation of Long Run's play-types assume a first year WTI oil price of US\$86.50/bbl (Edmonton Par C\$83.50/bbl) and an AECO price of C\$3.50/mcf, then escalated by 2% per year.

As shown in Exhibit 10 above, the Montney oil project delivers the best economics, followed by the Viking oil project at Redwater. In both cases, we assume only 60% of undeveloped land is prospective and 75% of wells drilled would be successful. So in our view, our economics are conservative. Additionally, Long Run's most recent wells in both areas are appreciably exceeding our IP30 assumptions.

### NET PRESENT VALUE UPSIDE

Exhibit 11 – Estimated Net Present Value by Play-type

Play-type	Un-risked Loc's (Gross)	Prospective Loc's (Net)	EUR / Loc (boe)	Res. Upside (mboe)	NPV / BOE	NPV Upside (\$000's)	NPV / Share Upside
Montney (Hz) - PRA AB	410	298	257,459	76,760	\$13.87	\$1,064,465	\$8.47
Viking (Hz) - Redwater AB	445	301	54,772	16,459	\$26.07	\$429,127	\$3.42
Bluesky (Vt) - Boyer AB	2,960	2,220	50,593	112,316	(\$2.27)	(\$255,116)	(\$2.03)
<b>Total prospects</b>	<b>3,815</b>	<b>2,819</b>		<b>205,535</b>		<b>\$1,238,476</b>	<b>\$9.86</b>

Source: Integral Wealth Securities

After risking locations as described above, the Montney and Viking project areas offer \$11.89 per share of economic upside to Long Run shareholders.



## NET ASSET VALUE

Exhibit 12 – Estimated Net Asset Value as at December 31, 2012

(\$000)	0%	10%	15%	20%
Proved				
Producing	496,995	339,225	294,109	260,409
Non-producing	29,927	17,181	13,982	11,769
Undeveloped	534,133	337,686	278,528	233,825
Total Proved	1,061,055	694,093	586,619	506,002
Total Probable	696,090	427,991	349,357	290,670
Total Proved + Probable	<b>1,757,146</b>	<b>1,122,084</b>	<b>935,976</b>	<b>796,672</b>
Net undeveloped land	114,391	114,391	114,391	114,391
Long term debt	--	--	--	--
Current assets	75,189	75,189	75,189	75,189
Current liabilities	(362,335)	(362,335)	(362,335)	(362,335)
Other assets/liabilities	--	--	--	--
Total balance sheet items	(172,755)	(172,755)	(172,755)	(172,755)
Net asset value - basic	<b>1,584,391</b>	<b>949,329</b>	<b>763,221</b>	<b>623,918</b>
Options exercise proceeds	53,221	53,221	53,221	53,221
Net asset value - fully diluted	1,637,611	1,002,550	816,442	677,138
Net asset value per basic share	<b>\$12.61</b>	<b>\$7.56</b>	<b>\$6.08</b>	<b>\$4.97</b>
Net asset value per fully diluted share	<b>\$12.04</b>	<b>\$7.37</b>	<b>\$6.00</b>	<b>\$4.97</b>

Source: Integral Wealth Securities

Long Run's current market valuation is solidly backed up by net asset value. Sproule Associates Limited performed Long Run's 2012 year-end reserve evaluation and calculated a \$1.119 billion NPV10 comparing very closely to our calculated \$1.122 billion NPV10.

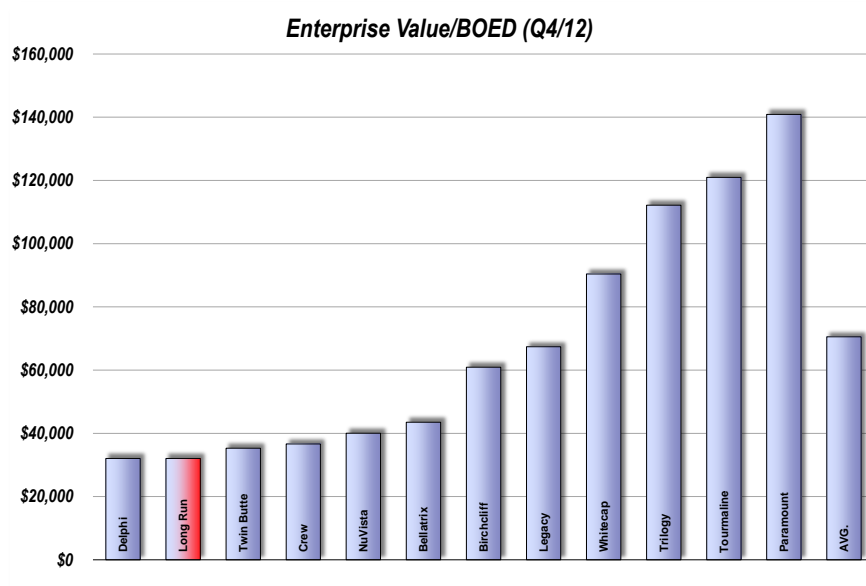
The late 2012 disposition of its Viking light oil assets in Saskatchewan (1,900 boed) for \$180.0 million significantly reduced its long term debt and thus improved its NAV per share. Another contributing factor to its relatively high NAV is Long Run's extensive undeveloped land inventory of 762,609 net acres, which we value at \$114.4 million using \$150/acre. Recent land sales of large contiguous properties prospective for Montney liquids have sold for as high as \$3,000/acre. So \$150/acre is conservative in our view.

Our calculated NAV per share as at December 31, 2012 of \$7.56 per share (Exhibit 12) implies Long Run is trading at a 0.5X price to NAV ratio. Shareholders are therefore well covered by real value at Long Run's current market value.

## PEER GROUP COMPARISON

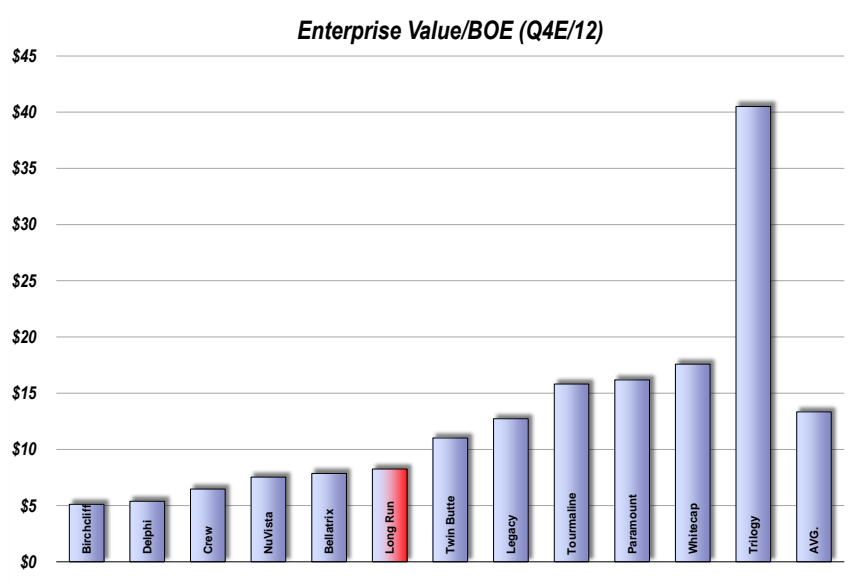
A major investment merit in favour of owning Long Run is the significant discrepancy between its market value and intrinsic, underlying asset value. In our peer group of 12 producers, Long Run trades to the second lowest value per unit of production and is below average for enterprise value per unit of reserves.

Exhibit 13 – Comparative Production Value



Source: Company Reports, Integral Wealth Securities

Exhibit 14 – Comparative Reserves Value

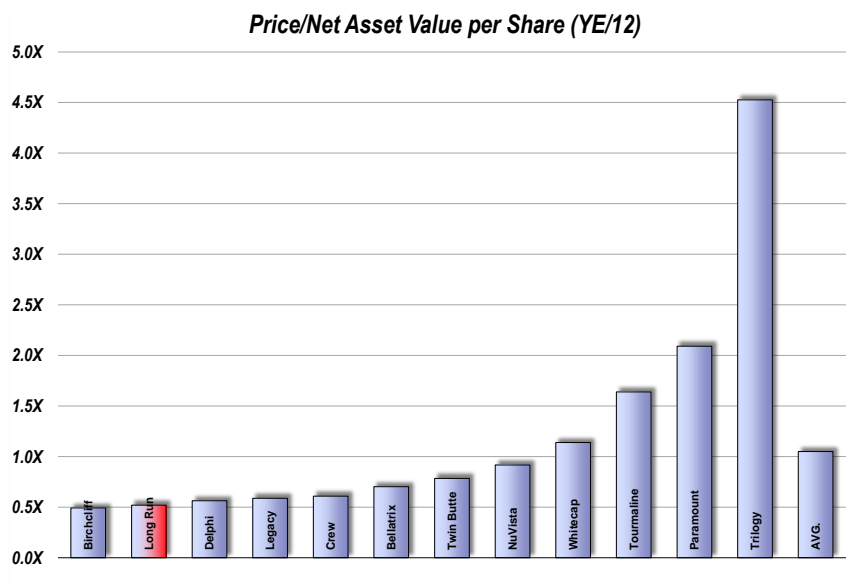


Source: Company Reports, Integral Wealth Securities

The average price to net asset value ratio is just over 1.0X and Long Run trades to a 0.5X ratio, the second lowest in our peer group.

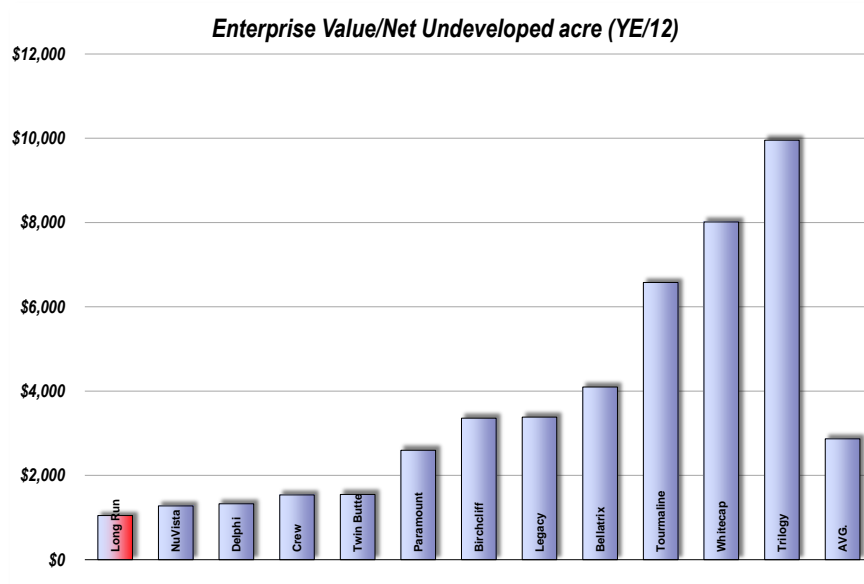
Further, as a measure of prospectivity and future upside, we calculate enterprise value per net undeveloped acre. Comparatively, Long Run has the lowest ratio and therefore offers relatively better upside than peers at its current market valuation.

Exhibit 15 – Comparative Net Asset Value



Source: Company Reports, Integral Wealth Securities

Exhibit 16 – Comparative Upside Value



Source: Company Reports, Integral Wealth Securities



## FORECAST

Exhibit 17 – Forecast Model

C\$000s	----- 2013E -----			----- 2014E -----		
	CURRENT	PREVIOUS	% Δ	CURRENT	PREVIOUS	% Δ
<b>Recommendation</b>	<b>BUY</b>					
<b>Target price</b>	<b>\$7.00</b>	--	nmf			
<b>MULTIPLES</b>						
<b>Target EV/DACF multiple</b>	<b>5.1X</b>	--	nmf	<b>3.9X</b>	--	nmf
Current EV/DACF multiple	3.4X	--	nmf	2.6X	--	nmf
Current P/CFPS multiple	2.4X	--	nmf	1.8X	--	nmf
<b>PRODUCTION</b>						
Oil (bblsd)	11,564	--	nmf	14,374	--	nmf
NGLs (bblsd)	1,441	--	nmf	1,565	--	nmf
Gas (mmcf)	72.0	--	nmf	78.2	--	nmf
Equiv alent (6:1)	25,010	--	nmf	28,980	--	nmf
<b>COMMODITY PRICES</b>						
WTI oil price (US\$)	\$86.50	--	nmf	\$90.00	--	nmf
Edmonton light oil price (C\$)	\$83.50	--	nmf	\$87.00	--	nmf
Henry Hub gas price (US\$)	\$3.80	--	nmf	\$4.50	--	nmf
AECO spot gas price (C\$)	\$3.48	--	nmf	\$4.17	--	nmf
Corp. oil price realization	\$75.13	--	nmf	\$74.50	--	nmf
Corp. NGL price realization	\$62.63	--	nmf	\$65.25	--	nmf
Corp. gas price realization	\$3.70	--	nmf	\$4.28	--	nmf
Corp. equiv. price (C\$, 6:1)	\$49.00	--	nmf	\$52.03	--	nmf
Netback (cash flow/boed)	\$23.76	--	nmf	\$26.99	--	nmf
<b>FINANCIAL</b>						
Revenue	447,306	--	nmf	550,346	--	nmf
Cash flow from operations	216,874	--	nmf	285,542	--	nmf
CFPS (basic)	<b>\$1.73</b>	--	nmf	<b>\$2.27</b>	--	nmf
Net Income	(36,714)	--	nmf	(16,928)	--	nmf
EPS (basic)	<b>(\$0.29)</b>	--	nmf	<b>(\$0.13)</b>	--	nmf
CapEx (E&D)	265,000	--	nmf	265,000	--	nmf
Net debt (end of period)	287,146	--	nmf	266,604	--	nmf
Average shares O/S (basic)	125,620	--	nmf	125,620	--	nmf

Source: Integral Wealth Securities

## RECOMMENDATION & TARGET PRICE

Long Run's corporate guidance is for average production of 25,000 boed and cash flow of \$230 million. Our timed drilling model calculates 25,010 boed in average production but results in \$217 million in cash flow due to our lower US\$86.50/bbl WTI assumption than the US\$93.00/bbl used by Long Run. Still, Long Run is significantly undervalued in our view, and is worthy of a BUY recommendation for reasons already discussed.

Our 12-month target price of \$7.00 is based on the aggregate of a cash flow-based target multiple component, plus a component partially recognizing net present value of future drilling.

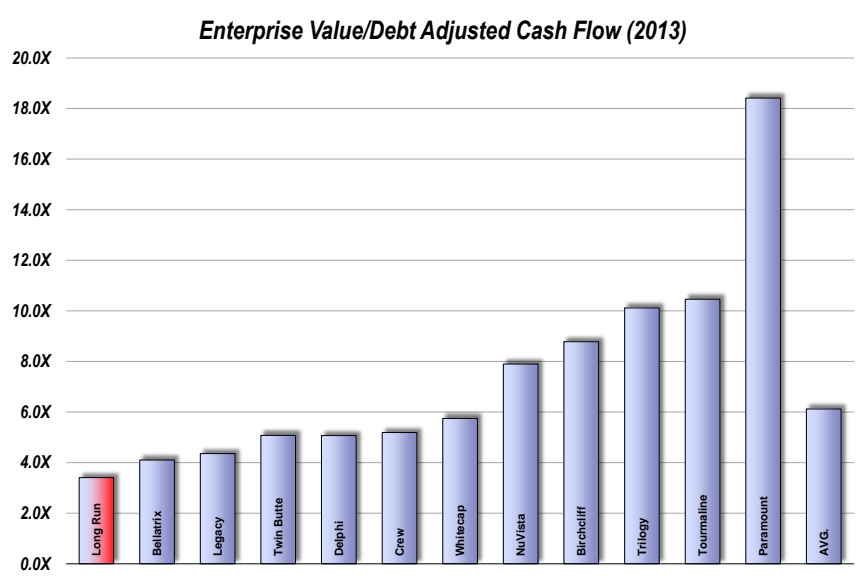
## CASH FLOW COMPONENT

While we would be tempted to use a 5.0X EV/DACF target multiple in setting the cash flow component of our 12-month target price reflecting greater corporate scale, we choose to use a 4.0X multiple recognizing Long Run does not yet have an operating track record since the Guide/Westfire merger was effected only a few months ago.

Long Run management has a positive track record though from years at Penn West, the Company has an appreciable drilling inventory from which to grow, and it has a relatively clean balance sheet. With that, we believe a 5.0X multiple would be appropriate after Long Run has operated through this year. A 4.0X EV/DACF cash flow component yields \$5.10 of value in our \$7.00 12-month target price.

Exhibit 18 illustrates that Long Run is also appreciably undervalued on a cash flow basis as it is on a production, reserves, NAV and undeveloped

Exhibit 18 – Comparative EV/DACF Multiples



Source: Company Reports, Integral Wealth Securities

acre basis. It is interesting to note, a 5.0X EV/DACF target multiple would entirely support our \$7.00 12-month target price, with no net present value of future drilling added.

### **NET PRESENT VALUE OF FUTURE DRILLING COMPONENT**

Our five-year drilling model ascribes value from only drilling in the Montney formation in the Peace River core area and the Viking formation in the Edmonton core area. For purposes of valuation, we assign only one-year of net present value to our 12-month target price, or 20% of the five-year scenario, for \$1.80 per share in value.

In our opinion, our economic results are conservative given:

- Actual IP30 results are exceeding our assumptions.
- Our “upside” is reduced by assuming a 60% land prospectivity factor, and a 75% drilling success factor.
- Our assumed price outlook is well below current prices.

The cash flow component of \$5.10 and NPV of future drilling component of \$1.80 combine to form a \$7.00 12-month target price and with that, **we rate Long Run a BUY.**

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