LARICINA ENERGY LTD.

2008
Year in Review

Strength in our Roots

Laricina Annual Report 2008 President's Message

Overview

Two-thousand eight was characterized by visible growth for Laricina, and the Company achieved many of its objectives. Since our inception in late 2005, our resources have grown to 3.2 billion barrels based on an independent assessment at mid-year 2008, our land base covers 73,590 hectares and our staff has grown to 46 employees.

Laricina has followed a focused strategy: to build the asset base, demonstrate its potential and add value through innovation. Our straightforward business plan has been to secure high-quality assets of significant scale and potential productive capacity, and then to advance development through execution in the field, with innovations levering the technical expertise of our people. This "strength in our roots" is what we will build upon in 2009 and future years.

During 2008 we reached the following milestones:

- Increased best-estimate contingent resources to 3.2 billion barrels of net recoverable bitumen, an increase of 42 percent from 2007;
- Invested more than $133 million to capital assets before dispositions;
- Disposed of our 1 percent interest in the Joslyn property for proceeds of $34.2 million;
- Increased the land base by 10 percent to 73,590 net hectares and acquired additional seismic data to further enhance the prospectivity of our assets;
- Expanded our technical and business team to 46 employees, opened our Wabasca field office and relocated our head office to Petro-Canada Centre to accommodate our growth;
- Conducted a winter drilling program of 63 exploration wells;
- Initiated the development work for the Germain project, built a 21 kilometre all-weather access road and advanced the regulatory application review process;
- Submitted application for regulatory approval of the Saleski pilot, commenced drilling two horizontal wells, and continued engineering design; and
- Drilled the vertical carbonate test well and conducted a non-thermal solvent production test at Saleski.

Laricina has held firm to its model that is built on the strength of its people, assets and technology. The groundwork has been laid for significant growth and our plan continues to be methodically executed with a clear, visible strategy that will support progress even in the down-phases of the commodity and economic cycles.

People and Innovation

Internally, our focus has been to create a team-based organization that encourages sharing of ideas and an entrepreneurial spirit. Our team members have embraced this style, which has empowered innovative approaches to achieving our objectives of enhanced recovery processes, reduced costs and improved environmental performance. This deliberate focus, idea generation and understanding of the fundamentals of our industry are integral to our business plan and our objective to create value for our shareholders.

We are committed to high-quality and relevant research to improve our understanding of reservoir behaviour and recovery processes. To date, our people have published six meaningful peer-reviewed technical papers and given many industry presentations. Some of this work in 2008 led to a patent application for a stacked-zone steam-assisted gravity drainage (SAGD) production process to improve efficiencies, performance and recovery factors, which we call passive heat-assisted recovery methods (PHARM).

In June 2008 Laricina held its second educational technical session for investors, bankers and analysts on the geological foundation of the oil sands and innovations in reservoir processes for improved recovery at lower cost. Laricina continues to demonstrate its knowledge leadership not only in the carbonates but in technology enhancements including thermal solvent applications which have the potential to accelerate production and reduce steam requirements. These enhancements could allow the Company to capture additional value and improve return for our shareholders.

Projects

Our two main areas, Germain and Saleski, have developed into large, future projects and essentially characterize the Company. These strategically located assets provide for an effective and synergistic approach in managing the drilling programs, labour and equipment, and complement future development. They have potential to produce in excess of 350,000 gross barrels of bitumen per day through a series of staged developments.

Germain

At Germain, 100 kilometres southwest of Fort McMurray, the original development plan is undergoing review and program modifications in order to move on commerciality sooner. Throughout 2008, we continued to advance the regulatory application submitted in October 2007 for the SAGD pilot with a target capacity of 1,800 barrels of bitumen per day from the Grand Rapids Formation. The pilot was originally designed to test well configurations and placement, thermal injection efficiencies, sand control, artificial lift and start-up procedures which are the most critical reservoir and operating questions to be answered for commercial design. However, during the past year we have advanced our understanding and gained more confidence on these critical questions through our core and lab work, reservoir studies, industry benchmarking and review of operating analogues.

Specifically, one such analogue is a commercial project that has been operating in the Grand Rapids Formation at Wolf Lake for more than 10 years which assisted our understanding on well completions, sands control and production performance expectations. Laricina's work to model this analogue for performance benchmarks has supported our development strategy reducing the need to proceed with the pilot project. In addition, our work with solvent processes and understanding of other industry projects testing solvents advanced tremendously. We now have the opportunity to amend the Germain development plan to include advancing solvent-SAGD processes aimed at managing the cost structure in leaner commodity price times and which also offer significant resource capture and production upside at a lower cost per barrel.

Advancing beyond the pilot to a commercial demonstration could establish an improved and innovative recovery process at a more modest scale, from which the staged project development could be launched. The amended design is currently being finalized and is expected to be 5,000 barrels of bitumen per day. Laricina expects to submit an amended application for a commercial demonstration in the second half of 2009. Regulatory approval could follow in late 2010 with start-up of the modified, demonstration project in mid-2012. In effect, Laricina's first development at Germain will be a smaller commercial-scale demonstration project, incorporating the recent advancements in solvent-assisted recovery processes.

During the 2008 winter drilling program at Germain, Laricina drilled 34 exploration wells, established water source and disposal zones and completed four observation wells in preparation for the pilot. Drilling also tested the underlying Winterburn Formation for potential to develop this secondary horizon and lever existing infrastructure. Another significant accomplishment during the year was construction of a 21 kilometre, all-weather road providing year-round access, the first noteworthy infrastructure put in place. Activity at Germain for 2009 will expand on the development and exploration drilling program to support reservoir information needed for the amended demonstration project application and further validate the resource base in the Winterburn Formation.

Saleski

The carbonates remain Laricina's intended engine for long-term growth. Carbonates produce a substantial amount of the world's conventional oil, but have not been exploited for bitumen potential. The carbonate bitumen fields in Alberta are an excellent reservoir and are comparable to the quality of carbonate fields globally. Laricina's efforts to advance knowledge and recovery technology in the carbonates have put us at the forefront of understanding this reservoir. The Alberta carbonates are being investigated by a few other operators, but none with the knowledge base, lab studies, simulation work and field tests comparable to Laricina's.

Since acquiring target lands in 2006, we have moved rapidly to understand the complexities of the carbonate reservoir. What provides such strong productive potential is the karsted porosity system. This geological feature enhances the size and connectivity of the holes in the rock, allowing oil to move through it more easily. Laricina believes its lands are in a prime location within this fairway. Laricina's primary carbonate asset is Saleski, located in the West Athabasca area 35 kilometres east of Germain.

The target at Saleski is the Grosmont Formation. Saleski has the added benefit of stacked zones where heating the upper zone could lead to efficient production from the lower zone with minimal steam requirement through our patent-pending PHARM process. The additional zone increases resources and, coupled with our PHARM technology, increases productive capacity through the addition of only a producer well harvesting the otherwise excess heat transfer.

We have advanced steadily towards commerciality in the carbonates. During the 2008 winter drilling program, Laricina drilled 10 exploration wells, tested potential water source and disposal zones and completed three observation wells in preparation for the planned pilot project. In January 2008 we submitted the regulatory application for the 1,800-barrel-per-day pilot at Saleski, which received interim approval and was followed by our foremost achievement last year – drilling the first two of six planned horizontal wells. The drilling of these wells gathered valuable information that increases our overall reservoir understanding and will improve drilling efficiencies for the remaining pilot horizontal wells. We continue to await full approval for the Saleski pilot, which is now expected during the second quarter of 2009. The regulatory delay has set construction and start-up back to 2010.

We also completed a small field test on non-thermal solvents to extract bitumen from the Grosmont at Saleski. Although this technology has not worked in the traditional McMurray Formation sands, it has potential in the high-permeability and vuggy carbonates. Based on the findings from this initial test, Laricina is completing a second test this winter. The production and injection data and experience gained from this field test will provide grounding of our reservoir model.

Since acquiring our carbonate assets, continued lab results, application of imaging technology to support the characterization of the rock, non-thermal solvent stimulation well testing and other studies and simulation work have caused us to consider a solvent-SAGD process in the Saleski pilot design. The simulation results to date indicate an improvement of recovery factors, lower steam-to-oil ratios and enhanced production rates that are encouraging. With the support of this winter's non-thermal test, we are continuing with the analysis and future design work necessary to decide on program modifications to the Saleski pilot. Our main priority, however, remains obtaining pilot approval and demonstrating SAGD technology in the carbonates.

The Saleski exploration and development program for 2009 includes drilling three exploration wells, additional testing of water source and disposal zones and a deeper carbon sequestration test. The Grosmont deposit is known to extend over 11 townships. Our geological and engineering review of historical and current data indicates a massive resource in the Grosmont, characterized by extensive vertical fracturing, karsting and high permeability correlatable over distances exceeding 100 kilometres. Laricina believes it has captured a significant opportunity with Saleski.

Burnt Lakes

From our understanding of the geology and through detailed analysis, we believe we have also identified a future sizeable project at Burnt Lakes, 110 kilometres northwest of Saleski along the Grosmont trend. The initial lands at Burnt Lakes were acquired in late 2007, which enabled the drilling of one exploration well in the 2008 program. The information from this well coupled with regional geological mapping and seismic increased our interest and resulted in our posting and acquiring additional lands, which now total 10,829 hectares.

During the first quarter of 2009, we drilled three exploration wells to deepen our understanding of the reservoir at Burnt Lakes. This winter's drilling results and additional studies will be incorporated into the independent evaluator's resource assessment planned for the third quarter. Initial indications suggest Burnt Lakes has the potential to be Laricina's third large-scale project.

Resource Assessment

The Company's exploration and development drilling program in 2008 totaled 81 wells. The team has demonstrated its ability to execute a multi-faceted program consisting of exploration and development drilling, horizontal drilling, field test operations and road construction. Our exploration program is designed to contribute significantly to achieving our resource growth objectives. Laricina's cumulative inventory of delineation wells to support the resource assessment now stands at 304 wells.

Laricina received an updated independent resource assessment in June 2008, incorporating the results of the winter 2008 exploration drilling and geophysical programs, as well as the results of the laboratory, technical studies and field work, but excluding Burnt Lakes. Laricina's best-case estimate bitumen resources reached 3.2 billion barrels, a 42 percent increase over 2007, and a high-case estimate of 6.0 billion barrels of net recoverable resource.

In the winter of 2009 we drilled a total of 10 wells. The main focus is in our Saleski core area, our new area in Burnt Lakes and our multi-zone potential in the Winterburn at Germain. We expect this program will further increase the best-case estimate of recoverable bitumen.

Financial Resources

In October 2008 we disposed of our one percent interest in the combined SAGD and mining Joslyn oil sands assets for proceeds of $34.2 million. Joslyn had played a role in Laricina's early stage but became non-strategic as the potential of our Germain and Saleski assets became visible. We chose to focus our limited capital on core projects of strategic significance. Over time, Joslyn would have required major capital as the mining project commenced equipment procurement and construction. The proceeds have provided a timely supplement to Laricina's working capital, which was $111.5 million at year-end 2008, improving financial capacity to fund our priority projects.

We are committed to maintaining financial flexibility. The timing of most capital expenditures beyond the current winter program is discretionary, enabling us to adjust spending as circumstances warrant. Our technical studies are low-cost programs that provide considerable reservoir knowledge as we fine-tune processes, helping us to continue to advance program development. Our infrastructure, facility construction and horizontal well-drilling are more capital-intensive and will require additional funding to be in place prior to advancing these activities.

Laricina's Board of Directors approved 2009 capital expenditures of $34.8 million, with approximately 80 percent allocated to exploration and development activities. These activities will be focused on moving our existing high-impact quality projects towards commercialization – where we can add the most value. In practice this will mean focusing on Germain and Saleski to advance commercialization and on Burnt Lakes for new growth. A primary goal is to advance projects to position them ready to proceed in the shortest possible timeframe when positive market sentiment returns. We see demonstrating production from the carbonates and advancing confidence in solvent-SAGD technology as the two step-changers that will best capture future value for our shareholders.

With sufficient funding for planned 2009 activities, Laricina's working capital at 2009 year-end is expected to be approximately $60 million. This will leave the Company in a manageable financial position beyond 2009. Current financial markets for early-stage oil sands companies are challenging. However, we are optimistic that the excellent projects Laricina has assembled, our expanding resource base, Laricina's technology and innovation leadership position, and its proven ability to move projects through key stages including pilot drilling, can attract the investment required in the future. Laricina has a solid future drawn from the strength in our roots.

Responsible Development

We are proud of the oil sands industry and are confident of its place in the energy future. The world needs energy. The resources we are developing together with innovative recovery processes will be important in meeting this energy demand. We recognize the economic benefits to Canadians of developing the resource responsibly. The fundamental macro-economics for the oil sands are favourable in the medium and long term. The expectation for recovering oil prices, lower natural gas costs, falling service costs and expanding transportation to additional markets, combined with reduced heavy oil supplies to the U.S. Gulf Coast from Mexico and Venezuela, all support a positive outlook.

With growing media attention and public awareness on the oil sands industry, Laricina remains engaged with industry associations such as the Canadian Association of Petroleum Producers, government and interested stakeholders to ensure there is a clear understanding of the issues and challenges facing the *in situ* business as well as the positive developments occurring within the sector. Laricina's consultation effort is occurring independently as well as under the auspices of the In Situ Oil Sands Alliance (IOSA), founded in 2008 to provide a voice for emerging *in situ* oil sands players.

We are very proud of Laricina's work and we feel that the many benefits of our industry need to be clearly communicated. *In situ* oil sands development offers diversified economic prosperity throughout Alberta at a manageable pace of expansion, with a modest surface impact and no draw on useable fresh water. SAGD technology, developed in Alberta, is already the most efficient thermal recovery technology in the world in terms of water and energy usage, and carbon emissions. With the opportunity to further reduce emissions through technical innovations such as solvents and carbon capture and sequestration, Canadians can be proud of the responsible development of the *in situ* resources of Alberta.

Outlook

Price and market volatility underscores the importance to reduce costs, manage operations and conduct extensive analysis into innovative ways to reduce our break-even commodity price. Laricina's business strategy incorporates innovative technologies that mitigate costs of extraction and support improved environmental performance. Our priority is to demonstrate the inherent value in our resources and improve that value by innovation and technology enhancement.

My confidence in the strength in our roots intensifies from the energy and enthusiasm I see in our experienced team, the validation of our high-quality assets and the innovative ideas that we are generating. Laricina's priorities for 2009 are:

- Conduct winter exploration and development drilling program of 10 wells;
- Carry out the second non-thermal solvent production test at Saleski;
- Complete the solvent-SAGD recovery process design for Germain and amend the pilot application in continuing the regulatory process;
- Complete detailed design, receive regulatory approval and prepare for construction of the Saleski pilot;
- Advance the solvent-SAGD recovery process design for Saleski;
- Engage in innovative studies, lab tests and analysis to enhance understanding of reservoir characteristics;
- Enhance reservoir simulation and modeling of solvent-SAGD bitumen recovery process;
- Manage and steward our capital programs for maximum value; and
- Position the Company for attracting investment capital under terms that recognize our inherent value.

I extend my sincere thanks and gratitude to our team including our Board of Directors for their ongoing dedication and hard work. It is through their efforts that we have established the underlying strength in our roots that will feed our future growth. I look forward to sharing our further progress with you.

(signed by)

Glen C. Schmidt
President and Chief Executive Officer
April 2, 2009

The Annual General Meeting of Laricina's shareholders will take place on May 22, 2009 at 10:00 a.m. M.D.T. in the Strand Room of the Metropolitan Conference Centre, at 333 – 4th Avenue SW, Calgary, Alberta.

This annual report contains certain "forward-looking statements" within the meaning of such statements under applicable securities law and includes statements about future plans that are based on our assumptions and that involve risk and uncertainties. Actual results may differ materially. Refer to page 9 for additional information on forward-looking statements.

Management's Discussion and Analysis

Management's Discussion and Analysis ("MD&A") of the financial results of Laricina Energy Ltd. ("Laricina" or the "Company") was prepared as of April 2, 2009 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ending December 31, 2008 and December 31, 2007 in this annual report. The financial information presented in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The information in this MD&A provides management's analysis of the financial and operating results of the Company and contains forward-looking statements based on estimates and assumptions that are subject to risks and uncertainties. Readers are directed to the following "Advisory on Forward-Looking Statements" which applies to the forward-looking statements in this MD&A and the foregoing messages in this annual report. Actual results or events may vary materially from those anticipated.

Advisory on Forward-Looking Statements

This annual report contains certain forward-looking statements relating to, without limitation, the Company's business and the intentions, plans, expectations, anticipated financial performance or condition. Forward-looking statements may include, but are not limited to, statements concerning estimates of original bitumen-in-place and recoverable resources, total potential production volumes, statements relating to the continued advancement of the Company's projects and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "forecasted" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. You are cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both generally and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of April 2, 2009, there can be no assurance that such expectations will prove to be correct and, accordingly that actual results will be consistent with the forward-looking statements. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this annual report include, but are not limited to geological conditions relating to the Company's properties, the impact of regulatory changes especially as such relate to royalties, taxation and environmental changes, the impact of technology on operations and processes and the performance of new technology expected to be applied or utilized by the Company; labour shortages; supply and demand metrics for oil and natural gas; the impact of pipeline capacity, upgrading capacity and refinery demand; general economic business and market conditions and such other risks and uncertainties described from time to time in the reports and filings made with security regulatory authorities, contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements contained in this annual report and accordingly, no assurance can be given than any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefit Laricina will derive from them. Unless required by law the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this annual report are expressly qualified by this advisory and disclaimer.

Description of Business

Laricina is an Alberta-based *in situ* oil sands development stage enterprise, incorporated on November 11, 2005. The Company is focused on the efficient and responsible development of its oil sands properties through existing SAGD recovery processes and technology enhancements. By leveraging technology innovations including thermal and non-thermal solvent and solvent-assisted steam applications, Laricina plans to reduce future costs, improve recoveries to enhance value and manage its environmental impact.

Financial Overview

($ thousands)	**2008**	2007
Working capital	**111,530**	203,425
Capital expenditures (cash)	**126,950**	67,077
Net income	**6,259**	893

The Company continues to review and evaluate the optimal recovery strategies for the development of its assets which may impact the timing, scope and scale of its development projects. As an emerging oil sands company Laricina has the ability to alter development plans quickly in consideration of changes in the economy or to implement process efficiencies. This deliberate planning and careful consideration of alternatives are essential to positioning Laricina for advancement when the economic environment becomes more favourable.

Oil Sands Resources

Laricina has identified four geologic formations for development: McMurray, Grand Rapids, Grosmont and Winterburn Formations. GLJ Petroleum Consultants Ltd. (GLJ) completed an independent resource evaluation effective June 1, 2008 on approximately 84 percent of the Company's total land base.

In 2008, Laricina increased its best estimate contingent resources to 3.2 billion barrels of net recoverable bitumen from 2.3 billion barrels. This increase in recoverable resources was primarily recognized in the Grosmont Formation where an additional 0.6 billion barrels was supported by the 2007 – 2008 drilling and geophysical programs.

	OBIP [1]		**Recoverable Resources**	
(mmbbls)	**Best**	**High**	**Best**	**High**
Grand Rapids	2,503	2,596	1,130	1,469
Grosmont/Winterburn	6,952	7,079	1,455	3,371
McMurray/Wabiskaw	1,893	2,789	656	1,178
Total	**11,348 [2]**	**12,464 [3]**	**3,241 [4]**	**6,018**

[1] Exploitable original bitumen-in-place.
[2] Includes 2,948 mmbbls of undeveloped OBIP for the Winterburn, Grosmont and Wabiskaw Formations for which recoverable resources have not been defined at this time.
[3] Includes 734 mmbbls of undeveloped OBIP for the Winterburn, Grosmont and Wabiskaw Formations for which recoverable resources have not been defined at this time.
[4] 95% of best estimate recoverable resources are contingent resources.

Four potential development areas were identified: Germain, Saleski, Poplar and Conn Creek. These four areas represent approximately 80 percent of Laricina's best estimate recoverable resources. During 2008, the Company identified Burnt Lakes as a fifth potential development area and has successfully acquired 10,829 net hectares of resource attributable to this area. No resources were assigned to Burnt Lakes in 2008.

Laricina has a total of 304 delineation wells on its operated lands with approximately 80 percent of the wells within the five development areas. These delineation wells support the recoverable resource estimates provided by GLJ as well as the regulatory applications for the pilot projects at Germain and Saleski.

Capital Investment

($ thousands)	**2008**	2007
Oil sands properties		
Land	**23,010**	30,280
Exploration	**38,301**	26,578
Development	**54,386**	890
Other	**6,937**	6,610
Capitalized general and administrative	**9,801**	5,786
Corporate	**638**	189
Capital asset additions	**133,073**	70,333

Land

Laricina successfully acquired 7,168 net hectares of land during 2008 primarily in the Burnt Lakes area compared to 24,371 net hectares acquired in 2007. The average cost to acquire these lands was $3,170 per net hectare in 2008 and $1,240 per net hectare in 2007. Laricina's land acquisition criteria includes: reservoir quality, resource scale and proximity to infrastructure.

At December 31, 2008 the Company's total land position was 73,590 net hectares compared to 66,644 net hectares at December 31, 2007. On October 3, 2008 Laricina received proceeds of $34.2 million for the disposition of its one percent interest in the Joslyn oil sands assets which reduced the total land position by 222 net hectares.

Exploration

The 2007 – 2008 exploration drilling and geophysical programs resulted in 63 exploration wells and over 170 kilometres of seismic data compared to 71 exploration wells and 190 kilometres of seismic data for the respective 2006 – 2007 programs.

Preparations for the 2008 – 2009 exploration programs began in the fourth quarter of 2008. The 7 well exploration program was successfully completed in the first quarter of 2009. Data, core and other information gathered from these programs will be analyzed and studied during the remainder of 2009.

Development

A significant amount of the development work that occurred during 2008 was a result of the preparation to construct two pilot projects, one at Germain and the other at Saleski. Until the Company receives regulatory approval, project plans for each of these areas continue to evolve as data from 2008 and 2009 activities are incorporated.

Optimization of the development plan at Germain has caused the Company to consider an amendment of the pilot project to a combined pilot and commercial project, a commercial demonstration of up to 5,000 barrels of bitumen per day and could corroborate an improved and innovative solvent-SAGD recovery process at an efficient scale. Capital expenditures incurred to date for the Germain pilot and first commercial projects such as equipment, engineering design, environmental assessment, regulatory and stakeholder consultation are transferrable to the Germain commercial demonstration project or the Saleski pilot project.

Planning and regulatory work for a 21 kilometre all-weather access road to the Germain pilot site began in late 2007 with completion in early 2008. The construction of this road provides flexibility in the project development schedules by allowing Laricina to have year-round site access to Germain.

Other development activities during 2008 included the drilling of 6 water source, 8 observation and 2 disposal wells for the advancement of the Germain and Saleski projects. Laricina successfully drilled a horizontal well into the carbonate formation to provide valuable information to optimize drilling design, costs and practices. This well is expected to be used in production during the Saleski pilot project.

In the first quarter of 2008, a non-thermal solvent-based production recovery test in the carbonate formation was performed from which data was collected and analyzed throughout the remainder of the year. A second phase field test was conducted in the first quarter of 2009. Data collected from these tests will provide the foundation for the reservoir model and design of the recovery process, as well as support the scope and plans for a larger scale thermal solvent-based pilot in the Grosmont carbonates and the Germain commercial demonstration project. Innovation in solvent-assisted processes offers a significant advantage on costs and environmental performance.

Laricina tested several formations below the Grand Rapids for reservoir qualities that would be conducive to carbon sequestration. This information will be used to investigate alternatives for carbon capture and sequestration opportunities, and to engage in research and regulatory discussions for carbon sequestering.

Other

Other capital investment costs included research and development projects to advance innovations and technology enhancements; regulatory work for two pilot applications at Germain and Saleski, and a commercial application at Germain; and provision for abandonment and restoration activities. In October 2007, the regulatory application for the Germain pilot was filed and the Saleski pilot application was filed in January 2008. The Company continues to work with the Alberta government and regulatory agencies for approval of these pilot applications.

Regulatory approval of the Saleski pilot project is now anticipated to be received in the second quarter of 2009. Laricina expects to be in position to proceed with the construction of the pilot project in 2010, subject to capital availability.

Regulatory and preparatory planning work continued for the Germain first commercial 10,000-barrel-per-day application. Currently, plans are underway to amend the pilot application and combine the pilot and first commercial project into a commercial demonstration project which will include the optimization of the recovery process. This commercial demonstration amendment is expected to be filed by the end of the third quarter of 2009.

Capital expenditures before capitalized general and administration costs are budgeted to be $34.8 million for 2009 inclusive of $9.0 million to conclude the 2008 – 2009 winter exploration drilling program, $16.4 million on development projects, $5.7 million for studies and the remainder for corporate development purposes. Laricina plans to finance future activities with current cash resources and future equity financings.

Corporate Results

($ thousands)	**2008**	2007
Revenue	**4,377**	2,753
General and administrative expenses, net	**5,371**	4,835
Income tax recovery	**7,514**	3,081
Net income	**6,259**	893

Revenue

Revenue consists primarily of interest income earned on cash balances. The increase in revenue when compared to 2007 is due to higher average funds on deposit as average interest rates decreased during 2008.

General and Administrative Expenses

General and administrative expenses were higher for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily as a result of the increase in the number of employees. Costs directly related to project development activities are capitalized.

($ thousands)	**2008**	2007
General and administrative expenses, gross	**9,442**	5,744
Stock-based compensation costs	**5,730**	4,877
Capitalized costs	**(9,801)**	(5,786)
General and administrative expenses, net	**5,371**	4,835

Directly related to the increase in employees to 46 at December 31, 2008 from 31 at December 31, 2007 gross general and administrative expenses increased particularly for salaries and benefits, and office costs. The Company does not anticipate any significant change in the number of employees during 2009.

Income Tax Recovery

Laricina recognized a $7.7 million future income tax recovery on the disposition of its Joslyn oil sands assets. In 2007, a reduction in the combined federal and provincial corporate income tax rate from 29 percent to 25 percent resulted in a recovery of future income tax expense of $3.3 million. The recoveries in 2008 and 2007 were non-recurring in nature.

Net Income

During the year ended December 31, 2008, Laricina recorded net income of $6.3 million compared to $0.9 million during the year ended December 31, 2007. Increases in interest income and income tax recovery exceeded the increase in general and administrative costs.

Selected Quarterly Information

($ thousands, except per share amounts)	**Q4 2008**	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Working capital	**111,530**	89,768	103,275	133,883	203,425	53,704	58,359	66,402
Capital asset additions	**13,604**	14,538	32,343	72,588	19,188	4,939	8,378	37,828
Revenue	**787**	762	923	1,905	730	683	596	744
Net income (loss)	**7,343**	(798)	(582)	296	2,543	(746)	(275)	(629)
Net income (loss) per common share, basic	**$ 0.21**	$ (0.02)	$ (0.02)	$ 0.01	$ 0.08	$ (0.03)	$ (0.01)	$ (0.02)

Working capital increased during the fourth quarter of 2008 due to the receipt of $34.1 million of net proceeds from the sale of the Joslyn oil sands assets. At the end of the fourth quarter of 2007, working capital was significantly higher as a result of $167.9 million of net proceeds received from the private placement of common shares and flow-through common shares on December 20, 2007.

Capital asset additions generally increase in the first quarter of each year due to the seasonality of the drilling and geophysical programs.

Interest revenue in the first quarter of 2008 was significantly higher due to higher average funds on deposit as a result of the net proceeds received from the private placement that closed on December 20, 2007.

Net income in the fourth quarters of 2008 and 2007 included the income tax recovery of $7.7 million on the disposition of the Joslyn oil sands assets and $2.9 million for the change in federal corporate income tax rates enacted in December 2007, respectively.

Liquidity and Capital Resources

Working Capital

Laricina's working capital at December 31, 2008 was $111.5 million compared to $203.4 million at December 31, 2007. The decrease in working capital was primarily due to the 2008 capital expenditures, partially offset by proceeds from the sale of the Joslyn oil sands assets.

($ thousands)	
Working capital, December 31, 2007	203,425
Proceeds from the issuance of common shares	60
Proceeds from the sale of oil sands properties, net of disposition costs	34,093
Capital expenditures (cash)	(126,950)
Abandonment deposits	(22)
Other	924
Working capital, December 31, 2008	**111,530**

In the fall of 2008, in light of the economic volatility and the uncertainty in the capital markets, the Company modified its spending program for 2008 and reduced the total capital and operating spending from the anticipated amount of $190.0 million to an actual amount of $136.6 million. Laricina has sufficient working capital to finance the anticipated 2009 capital and operating spending program of approximately $48.6 million. Laricina will continue to evaluate the current market conditions and manage expenditures to ensure its sustainability through this period of economic uncertainty.

As a development stage company, future capital expenditures required to achieve commercial operations are dependent and conditional on financing from equity and debt sources. The Company anticipates funding capital and operating activities primarily through equity financing until commercial development commences and then through an appropriate combination of debt and equity thereafter. Asset sales or joint venture arrangements may also be considered as alternative financing sources.

Investments

The Company's cash is currently held in a business operating account with Canadian Imperial Bank of Commerce (CIBC). The account bears interest of up to prime minus two percent. Laricina's investment policy precludes exposure to investments in asset-backed securities or commercial paper.

Debt Financing

Effective March 31, 2007, Laricina entered into a demand credit facility of $15.0 million with CIBC, renewed annually. On April 2, 2009, the credit facility was renewed at no additional cost. The credit facility, if utilized, is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties and is subject to annual review. The credit facility is currently secured by a floating charge demand debenture over the Company's assets and a security deposit of cash equal to the amount of the credit facility. At the date of this report, the Company had issued letters of credit totaling $1.6 million under this credit facility.

In the near term, the Company does not expect to employ debt financing. When projects advance to the commercial development phase, Laricina will evaluate the markets for term debt and project financing to prudently enhance the Company's borrowing capacity.

Commitments and Contractual Obligations

The Company has operating lease obligations until 2011 as follows:

($ thousands)	
2009	1,499
2010	1,380
2011	1,026

Outstanding Share Data

At March 31, 2009, share capital consisted of the following:

(thousands)	
Common shares	34,748
Performance warrants	4,171
Stock options	2,576
Performance share units	286
	41,781

Critical Accounting Estimates

The preparation of consolidated financial statements under Canadian GAAP requires estimates and assumptions based on management's judgment. By their nature, estimates and assumptions are subject to uncertainty and the effect of changes in these estimates and assumptions on the consolidated financial statements could be significant.

Oil Sands Resources

Laricina's oil sands resources are independently evaluated by petroleum engineering consultants. The estimate of resources is a subjective process and is reliant on forecasts which are based on uncertainties such as geologic and engineering data, projected future rates of production, commodity pricing and the timing of future capital expenditures. Revisions to resource estimates can occur from the results of future drilling, testing, production levels and economics of recovery.

Impairment

Impairment is indicated if the net carrying value of capital assets may not be recoverable from the estimated future undiscounted cash flows associated with those capital assets. The calculation of the estimated future cash flows is based on a number of estimates, including resources, production rates, commodity prices, future development costs and other relevant assumptions.

Asset Retirement Obligations

The fair value of the obligation is recognized as both an asset and a liability for existing asset retirement obligations. This fair value of the obligation is the present value of the estimated amount of cash flows required for the future abandonment of an asset. These future payments are discounted using a credit-adjusted risk-free rate appropriate for the Company. Estimating the timing, amount and value of these retirement costs is subject to judgment.

Stock-based Compensation

The Company applies the fair value method for performance warrants, stock options and performance share units granted. Compensation cost is recognized over the vesting period of the award based on the estimated fair value of the performance warrant, stock option or performance share unit on the grant date using the Black-Scholes pricing model.

Future Income Tax

The determination of future income tax assets and liabilities requires interpretation of complex laws and regulations, and are recognized at tax rates expected to be in effect at the estimated timing of reversal of temporary differences between the accounting and tax values of certain assets and liabilities.

Changes in Accounting Policies

Capital Disclosures

On January 1, 2008, Laricina adopted the Canadian Institute of Chartered Accountants recommendations for Capital Disclosures. The new standard requires the Company to disclosure its objectives, policies and processes for managing its capital structure.

Financial Instruments – Disclosures and Financial Instruments – Presentation

Effective January 1, 2008 the Company adopted the CICA recommendations for Financial Instruments – Disclosure and Presentation. These new disclosure standards increased the emphasis on the nature and extent of risks arising from financial instruments and how the Company manages those risks. The new presentation standard carries forward the former presentation requirements.

New Accounting Pronouncements

In February 2008, the CICA Accounting Standards Board confirmed the adoption of International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of IFRS on its results from operations, financial position, financial statement disclosures and accounting processes.

During 2009, a team of individuals will identify the differences between Canadian GAAP and IFRS, assess the potential impact of these differences and make recommendations for accounting policy changes, including any implications on accounting, operational processes and business systems. A preliminary review of IFRS has indicated that the majority of current accounting policies are acceptable however major accounting policy changes are expected to be evaluated by the third quarter of 2009.

The CICA issued Section 3064, Goodwill and Intangible Assets to provide guidance for the recognition, measurement, presentation and disclosures of goodwill and intangible assets. This section will apply to the Company beginning January 1, 2009 however is not expected to have a significant impact on the consolidated financial statements.

In January 2009, the CICA issued new standards for business combinations, consolidated financial statements and non-controlling interests. The primary focus of these new standards is to harmonize existing GAAP with International Accounting Standards. These standards are effective January 1, 2011 and Laricina is evaluating the impact on its consolidated financial statements.

Risk Management

The operational and financial performance of Laricina can be affected by a variety of risks related to the oil and gas industry, many of which are not in control of the Company. Laricina does not have material operations and the primary assets of the Company consist of undeveloped oil sands properties. Accordingly, the Company’s success is dependent upon the future development of its oil sands properties and additional acquisitions. Current risk factors influencing the Company include, but are not limited to, the following:

Uncertainty of Resources

There are a number of uncertainties inherent in estimating the quantities of oil sands resources and no assurance can be given that the level of resources or recovery of bitumen will be realized. Reservoir engineering is a subjective process of estimating and is highly dependent on the accuracy of the assumptions on which they are based. Assumptions such as historical production from similar properties, the effects of regulation by government agencies, estimated future capital and operating costs and potential enhanced recovery techniques are used in estimates of economically recoverable bitumen resource and actual results may vary considerably. All such estimates are, to some degree, uncertain and classifications of reserves are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the economically recoverable bitumen, the classification of such reserves based on risk of recovery and estimates of future net revenue expected from those reserves, prepared by different engineers or by the same engineers at different times, may vary substantially. Some of the formations that Laricina intends to produce bitumen from and that GLJ has assigned recoverable resources to, have not yet produced commercial quantities of bitumen.

Capital Requirement and Financial Resources
Similar to many growth-oriented oil sands companies, Laricina expects to make substantial capital expenditures for the acquisition, exploration, development and production of oil sands resources in the future. Such expenditures require financing from equity or debt sources, asset sales or joint venture arrangements. There can be no assurance that any of these sources of financing will be available at terms that would be acceptable to the Company.

Regulatory
Future development of Laricina's oil sands properties is dependent on the approval of required regulatory applications and permits. Failure to obtain regulatory approvals or failure to obtain them on a timely basis could result in delays or increased costs or projects not proceeding.

Government regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations could impact the timing of Laricina's project development plans or increase costs which may make future projects uneconomic. For example, recently the Alberta Energy Resources Conservation Board (the primary regulator for oil sands activities in Alberta) released a draft directive for comment regarding Requirements for Water Measurement, Reporting and Use for Thermal In Situ Oil Sands Schemes.

Regulatory approvals require the Company consult with local communities and stakeholders. While Laricina has an established stakeholder consultation and communication plan, there can be no assurance that the respective parties will not affect the timing or potential receipt of the necessary approvals to advance the Company's development plans.

Environmental
Like all natural resource development, oil sands development has an impact on the environment and is subject to environmental regulation. Environmental legislation provides for, among other things, restrictions and prohibitions on spills or emissions of various substances. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. No assurance can be given that the current or future environmental laws may not have an adverse affect on the financial condition of the Company.

Announcements from the federal and provincial governments on regulations for greenhouse gas and air emissions legislation have caused uncertainty and changed the environmental regulation of oil sands operations. In 2007, the Alberta government's *Climate Change Emissions Management Act* and *Specified Gas Emitters Regulation* came into effect requiring that facilities emitting more than 100,000 tonnes of greenhouse gases reduce greenhouse gas emission intensity by 12 percent over average intensity levels of 2003, 2004 and 2005. If the emissions intensity target is not met through improvements in operations, compliance tools include: per tonne payment into the climate change emissions management fund; purchase of Alberta-based offsets; or purchase emission performance credits from a different Alberta facility. Failure to comply with these regulations results in a penalty of 200 percent per tonne of greenhouse gases over the allowable greenhouse gas emission intensity limit. As Laricina is still in the development stage and not operating facilities, the impact of complying with this regulation is currently unknown.

The federal government has provided a draft framework for the federal regulation of greenhouse gases but has yet to disclose draft regulations for the implementation of this framework. As such, there is no federal legislative scheme in Canada for the regulation of greenhouse gases. Until that time, the impact of federal greenhouse gas regulation on the Company's operations is unknown.

Laricina is a participant in several ongoing research studies and anticipates mitigating the impacts of these legislative initiatives through innovation which will increase operating efficiency by reducing the use of energy and emissions. The Company is also a founding member of the In Situ Oil Sands Alliance, a group of independent emerging oil sands companies organized to support industry dialogue with both the Federal and Provincial governments and the respective regulators.

Competition

The oil sands industry is highly competitive for the acquisition of reserves, exploration leases and skilled industry personnel. Many competitors in the oil sands industry have significantly greater financial resources than Laricina. Laricina's success will be dependent on its ability to successfully bid on and acquire property rights, enter into joint venture arrangements with other oil sands development companies, enter into beneficial partnerships with other industry participants or attract individuals with oil sands expertise.

Royalty Regime

On January 1, 2009, the Crown royalty regime for oil sands projects announced by the Alberta government in 2007 became effective. In the event that a bitumen recovery project is developed and becomes operational, Laricina's revenue and expenses will be directly affected by the royalty regime applicable to its projects. The economic benefit of future capital expenditures for any project is, in many cases, dependent on a satisfactory royalty regime. There can be no assurance that the royalty structure currently in place will remain unchanged.

Exploration, Development and Production Risks

The success of Laricina is dependent on its ability to find, acquire, develop and produce oil at an economically recoverable cost. Oil sands exploration, by definition, involves risk. Laricina will be designing and testing improved recovery and cost reduction strategies for the development of *in situ* projects that are innovative to the oil sands industry. There is no assurance that the Company will be able to locate satisfactory properties for acquisition or that the development strategies will have a positive influence on the Company's financial results.

Infrastructure

The future development of the Company's commercial projects will depend on certain infrastructure, including but not limited to; pipelines for transportation of diluent and blended product, pipelines for the transportation of natural gas and electricity transmission systems.

Insurance

The exploration for and development of oil sands properties may expose the Company to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Laricina obtains insurance to provide against such risks, there are limitations on liability that may not be sufficient to cover the full extent of such costs or the risk may not be insurable in all circumstances or the Company may elect not to obtain insurance in certain circumstances. The occurrence of a significant event that is not fully insured against could have a material adverse effect on the Company's financial position.

Assessment of Value of Acquisitions

Acquisitions of oil and gas issuers and oil and gas assets are typically based on engineering and economic assessments. These assessments include assumptions regarding recoverability and marketability of oil and gas, future commodity prices and operating costs, future capital expenditures, royalties and other government levies. Many of these factors are subject to change and are outside the Company's control. Initial assessments may be based on reports by a firm of independent engineers that may have evaluation methods and approaches that are different from the firm engaged by Laricina to complete its annual resource evaluations. As a result, the initial assessments may differ significantly from the assessments by the Company's engineering firm and affect the return on and value of the acquisition.

Foreign Exchange

Crude oil prices and certain major equipment costs are generally based on a United States dollar market price. Fluctuations in exchange rates between the United States and Canadian dollar will therefore give rise to foreign currency exchange exposure and could result in adverse effects on Laricina's financial position or future cash flows.

Commodity Price Risk

Oil prices, natural gas prices and heavy oil differentials fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of Laricina. The Company's future financial results are dependent on the future demand and any negative price affect that increased bitumen supplies by competitors could have.

Operating Costs

The cost of natural gas is a significant component of the cost of production of the future bitumen produced by the Company's projects. Laricina's future earnings may be reduced if significant increases in the cost of natural gas occur. The availability and cost of diluent may also reduce future earnings if significant increases in diluent prices occur.

Lack of Liquidity

Currently, there is no public market for the common shares of Laricina. Any future offering may not lead to an active trading market or, if developed, one that would be sustainable. There can be no assurance that a future offer for the common shares will be made. Accordingly, an investment in the common shares should only be considered by investors who do not require liquidity.

Reliance on Key Employees

The continued success of Laricina is dependent on the performance of key employees. Failure to retain or to attract and retain additional key employees with the necessary skills could have an adverse effect upon the Company's development, growth and profitability.

Seasonality

Certain of Laricina's properties are located in areas that are inaccessible during non-winter months or activities on the properties are restricted due to environmental concerns. Seasonal factors and unexpected weather may lead to delays in exploration or development programs.

Third Party Credit Risk

The Company is or may be exposed to third party credit risk through financial instruments, accounts receivable and contractual arrangements with current or future joint venture partners and other parties. Should any counterparties fail to meet their contractual obligations it could impact operations or there could be a material adverse effect on the financial position or cash flow of the Company.

Income Taxes

Although Laricina files all required income tax returns and expects to be in compliance with the provisions of the Income Tax Act (Canada) and applicable provincial tax legislation, there is no assurance that these returns will not be reassessed by the applicable taxation authority. A successful reassessment may have an impact on current and future income taxes payable.

2009 Outlook Summary

Laricina will continue to monitor the capital markets during 2009 and consider a full range of financing strategies to provide the funds necessary to advance its projects, such as asset sales, participation agreements with other oil sands development companies or joint venture arrangements. The Company is the operator of all its projects and is able to manage the pace of development to match the timing of available future financings.

Although the Company is always considerate of potential acquisitions of oil sands properties, it will be focused on advancing the development of current land holdings.

Regulatory approval of the application for the pilot project at Saleski is currently anticipated to be received in the second quarter of 2009. Subject to financing, it is expected that construction of the Saleski pilot will begin in 2010.

The regulatory approval for the Germain pilot application is currently expected to be received in the second half of 2009. The filing of the amended regulatory application for the combined commercial demonstration project at Germain is expected to occur by the third quarter of 2009. Laricina anticipates optimal recovery at reduced costs through innovative solvent-assisted techniques that will be included in the application. Regulatory approval of the Germain commercial demonstration could be received late in 2010 with potential start-up, subject to financing, in 2012.

The 2008 – 2009 exploration and development drilling programs were completed in the first quarter of 2009 and consisted of 10 wells. With the current economic environment, Laricina high-graded capital spending and pursued more strategic programs that targeted areas providing the most value for the capital invested.

In the first quarter of 2009, the Company performed the second phase of the non-thermal solvent-based production test. Information gathered from this recovery test in the carbonate formation will be used to assess and develop plans for the Saleski pilot and the Germain commercial demonstration project incorporating solvent-thermal technology that is expected to improve recovery factors, lower steam-to-oil ratios and enhance production rates, improving overall profitability.

Laricina believes that it will be able to attract the financing necessary to execute its projects and will continue to monitor the capital market environment for the best opportunity to recognize the value inherent in its people, assets and technologies.

Management's Responsibility for Financial Reporting

To the Shareholders of Laricina Energy Ltd.

Management is responsible for the preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles. The financial and operational information included in this report is consistent with that contained in the consolidated financial statements in all material respects and include amounts based on management's informed judgments and estimates.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards. They have performed such tests as they considered necessary to enable them to express an opinion that the consolidated financial statements are presented, in all material respects, fairly in accordance with Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal controls. This responsibility is exercised through the Audit Committee, consisting of three non-management directors appointed by the Board of Directors. The Audit Committee meets regularly with management and the external auditors to discuss the financial reporting process, auditing and other financial reporting matters. In addition, the Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

(signed by)

Glen C. Schmidt
President and Chief Executive Officer

(signed by)

Karen E. Lillejord
Vice President Finance and Controller

Calgary, Canada
April 2, 2009

Auditors' Report to the Shareholders

To the Shareholders of Laricina Energy Ltd.

We have audited the consolidated balance sheets of Laricina Energy Ltd. as at December 31, 2008 and 2007 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed by)

KPMG LLP
Chartered Accountants

Calgary, Canada
April 2, 2009

Consolidated Balance Sheets

As at December 31 *(thousands of dollars)*	**2008**	2007
Assets		
Current assets		
Cash (note 6)	**$ 116,201**	$ 209,166
Accounts receivable	**3,247**	1,972
Prepaid expenses and deposits	**513**	319
	119,961	211,457
Abandonment deposits	**116**	94
Capital assets (note 4)	**293,850**	195,017
	$ 413,927	$ 406,568
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 8,431**	$ 8,032
Asset retirement obligations (note 5)	**1,638**	212
Deferred revenue	**75**	-
Future income tax (note 10)	**20,923**	19,019
	31,067	27,263
Shareholders' equity		
Share capital (note 7)	**362,330**	370,517
Contributed surplus (note 8)	**11,816**	6,333
Retained earnings	**8,714**	2,455
	382,860	379,305
Commitments (notes 9)		
Subsequent event (note 6)		
	$ 413,927	$ 406,568

See accompanying notes to the consolidated financial statements

On behalf of the Board:

Brian K. Lemke
Director

Glen C. Schmidt
Director

Consolidated Statements of Income, Comprehensive Income and Retained Earnings

For the years ended December 31 *(thousands of dollars, except per share amounts)*		**2008**		2007
Revenue				
Interest	**$**	**4,263**	$	2,753
Gain on sale of assets		**114**		-
		4,377		2,753
Expenses				
General and administrative		**5,371**		4,835
Amortization		**261**		106
		5,632		4,941
Loss before income taxes		**(1,255)**		(2,188)
Future income tax recovery (note 10)		**7,514**		3,081
Net income and comprehensive income		**6,259**		893
Retained earnings, beginning of year		**2,455**		1,562
Retained earnings, end of year	**$**	**8,714**	$	2,455
Net income per common share (note 7)				
Basic	**$**	**0.18**	$	0.03
Diluted	**$**	**0.16**	$	0.03

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

For the years ended December 31 *(thousands of dollars)*	**2008**	2007
Cash provided by (used in):		
Operating activities		
Net income	**$ 6,259**	$ 893
Add items not affecting cash:		
Future income tax recovery	**(7,514)**	(3,081)
Gain on sale of assets	**(114)**	-
Deferred revenue	**(32)**	-
Stock-based compensation	**2,317**	2,582
Amortization	**261**	106
Asset retirement costs	**(2)**	-
Changes in non-cash working capital (note 11)	**(182)**	(110)
	993	390
Investing activities		
Capital expenditures	**(126,950)**	(67,077)
Proceeds on sale, net of costs on disposal	**34,093**	-
Short-term investments	**-**	11,995
Abandonment deposits	**(22)**	(94)
Changes in non-cash working capital (note 11)	**(1,050)**	3,519
	(93,929)	(51,657)
Financing activities		
Share issues, net of share issuance costs (note 7)	**60**	188,059
Changes in non-cash working capital (note 11)	**(89)**	61
	(29)	188,120
Increase (decrease) in cash	**(92,965)**	136,853
Cash, beginning of year	**209,166**	72,313
Cash, end of year	**$ 116,201**	$ 209,166

See accompanying notes to the consolidated financial statements

(tabular amounts in thousands of dollars except per share amounts and as otherwise noted)

1. Financial Statement Presentation

Laricina Energy Ltd. ("Laricina" or the "Company") was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). The consolidated financial statements of Laricina are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Basis of Presentation
The consolidated financial statements include the accounts of Laricina and its wholly-owned subsidiary corporations. The Company has entered into joint venture arrangements and accordingly these accounts reflect only Laricina's proportionate interest in these activities.

Laricina is an early-stage enterprise focused on the development of oil sands properties through acquisition, partnership or other arrangements. The Company is considered to be in the development stage as it does not have any production revenue and will not until a project becomes commercial. Since inception, Laricina has focused on acquiring prospective oil sands properties, developing properties into projects, financing, attracting people and innovative technologies. Currently, two areas have been identified as future commercial projects, Germain and Saleski. Until one of its projects reaches commercial production, Laricina will continue to be in the development stage. The Company will require future equity or debt financing to continue to commerciality.

2. Summary of Significant Accounting Policies

Capital Assets
The Company follows the full cost method of accounting whereby all costs associated with the acquisition, exploration and development of oil sands properties are capitalized. All direct costs related to the development of an oil sands property are considered pre-operating and are capitalized, including the cost of the acquisition of leases, geological and geophysical costs, drilling, plant and equipment, pipeline costs and related overhead.

General and administrative costs directly related to development activities are capitalized.

Capital assets are assessed at each reporting period to determine if there are events or circumstances that would indicate it is unlikely that the carrying values will be recovered in the future. If the carrying value is unlikely to be recovered, the excess of those costs over the fair value is charged to earnings in that period.

Proceeds from the sale of oil sands properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly change the rate of depletion.

Amortization and Depletion
Corporate assets are amortized on a straight-line basis over the estimated service life of the related asset at annual rates of 20 to 30 percent.

Amortization and depletion of oil sands properties will be provided following the unit-of-production method based on the estimated proved reserves when commercial production begins.

Asset Retirement Obligations

The Company recognizes a liability for future asset retirement obligations associated with long-lived assets in the period it is incurred with a corresponding increase to the carrying amount of the related long-lived asset. Asset retirement costs will be amortized on a basis consistent with the related amortization and depletion policy. The liability is increased due to the passage of time until the retirement obligation is settled. Changes in the estimated obligation resulting from revisions to estimated timing or amount of undiscounted cash flows are recognized as a change in the asset retirement obligation and the asset retirement costs. Actual asset retirement costs are charged against the asset retirement obligation when incurred. Accretion for the obligation is capitalized prior to commercial production and expensed as operating cost after commerciality is achieved.

Stock-based Compensation

The Company applies the fair value method for performance warrants, stock options and performance share units granted. Compensation cost is recognized over the vesting period of the award based on the estimated fair value of the performance warrants, stock options or performance share units on the grant date using the Black-Scholes pricing model with a corresponding increase to contributed surplus. The fair value of stock-based compensation granted to providers of service is estimated and any change in this value is recognized at each reporting date of the Company. Upon exercise, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Flow-through Shares

A portion of the Company's exploration activities have been financed through the issue of flow-through common shares. Under the terms of the share issue, the related resource expenditure deductions are renounced to the shareholders in accordance with income tax legislation. Share capital is reduced, with a corresponding increase to the future tax liability, by the estimated cost of the resource expenditure when the related income tax deductions are renounced to the shareholders.

Income Taxes

The asset and liability method of accounting for income taxes is followed whereby future income tax assets and liabilities are recognized based on the estimated tax effects of temporary differences between the carrying value of assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using the enacted tax rates that will apply in the years the temporary differences are expected to be recovered or settled.

Use of Estimates

Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes to the consolidated financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates. Significant estimates used in the preparation of the consolidated financial statements include, but are not limited to, the recovery of exploration and other costs capitalized in accordance with full cost accounting, asset retirement obligations, future income tax and stock-based compensation.

2. Summary of Significant Accounting Policies (continued)

Per Share Amounts
Basic net income per common share is calculated using the weighted average number of common shares issued and outstanding during the year. The Company uses the treasury stock method to determine the dilutive effect of performance warrants, stock options and performance share units.

Changes in Accounting Policies
On January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants recommendations for Financial Instruments – Recognition and Measurement, Comprehensive Income and Equity. These standards result in changes in the accounting for financial instruments as well as introduce comprehensive income as a separate component of shareholders' equity.

Financial instruments – recognition and measurement
This new standard requires all financial instruments to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available-for-sale are measured at amortized cost determined using the effective interest rate method. Cash is designated as held-for-trading and the fair value approximates the carrying value due to its short-term nature. Accounts receivable, prepaid expenses and deposits are classified as loans and receivables while accounts payable and accrued liabilities are classified as other financial liabilities and the fair values approximate their carrying value due to the short-term nature of these instruments. The Company has not designated any financial instruments as available-for-sale.

Comprehensive income
Comprehensive income is comprised of net income and other comprehensive income which represents the change in equity for a period that arises from unrealized changes in the fair market value of derivative instruments designated as cash flow hedges.

Equity
This section establishes the standards for presentation of equity and changes in equity during the period. It requires separate presentation of changes in equity for the period. Other comprehensive income would be included in the consolidated balance sheet as a separate component of shareholders' equity.

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants recommendations for Capital Disclosures, Financial Instruments – Disclosures and Financial Instruments – Presentation.

Capital Disclosures – Presentation
This section for capital disclosures establishes the disclosure requirements of an entity's objectives, policies and processes for managing capital (note 12).

Financial Instruments – Disclosures and Financial Instruments – Presentation
This section will replace the standard financial instruments – disclosure and presentation, revising and enhancing disclosure requirements while carrying forward its presentation requirements. The new disclosure standard places increased emphasis on the nature and extent of risks arising from financial instruments and how the Company manages those risks (note 13).

3. New Accounting Pronouncements

In February 2008, the CICA Accounting Standards Board confirmed the adoption of International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011 for publicly accountable entities. The Company is currently assessing the impact of IFRS on its results from operations, financial position, financial statement disclosures and accounting processes.

The CICA issued Section 3064, Goodwill and Intangible Assets to provide guidance for the recognition, measurement, presentation and disclosures of goodwill and intangible assets. This section will apply to the Company beginning January 1, 2009 however is not expected to have a significant impact on the consolidated financial statements.

In January 2009, the CICA issued new standards for business combinations, consolidated financial statements and non-controlling interests. The primary focus of these new standards is to harmonize existing GAAP with International Accounting Standards. These standards are effective January 1, 2011 and Laricina is evaluating the impact on its consolidated financial statements.

4. Capital Assets

	2008	2007
Oil sands properties	**$ 293,243**	$ 194,787
Corporate assets	**1,030**	392
	294,273	195,179
Accumulated amortization - corporate assets	**(423)**	(162)
	$ 293,850	$ 195,017

On October 3, 2008, Laricina disposed of its one percent working interest in the Joslyn oil sands assets for gross proceeds of $34.2 million ($34.1 million, net of disposition costs).

During the year ended December 31, 2008, the Company capitalized general and administrative expenditures of $9.8 million ($5.8 million in 2007). To date, no depletion has been recorded with respect to the oil sands properties as the Company has not commenced commercial production.

5. Asset Retirement Obligations

The Company recorded obligations of $1.4 million during the year ended December 31, 2008 ($0.1 million in 2007). The estimated undiscounted amount of cash flows required to settle the asset retirement obligations is $4.0 million ($0.4 million in 2007). These asset retirement costs have been discounted at rates between 4.5 percent and 5.1 percent and are expected to be incurred between 2015 and 2040.

6. Credit Facility

Effective March 31, 2007, the Company entered into a credit agreement with a Canadian chartered bank to provide a demand credit facility of $15.0 million which was renewed April 2, 2009. Amounts drawn under the facility can take the form of prime rate based loans, banker's acceptances, LIBOR loans or letters of credit and will bear interest at the prime rate, banker's acceptances rates or at LIBOR plus a spread above the reference rate between 1.0 percent and 2.0 percent per annum. The credit facility is secured by a floating charge demand debenture over the Company's oil sands properties and a security deposit of cash equal to the amount of the credit facility. As at December 31, 2008, the Company had issued letters of credit totaling $1.6 million under this credit facility.

7. Share Capital

Authorized

Unlimited number of common shares without par value

Unlimited number of preferred shares without par value, issuable in series

Issued

	Number of Shares (thousands)		**Amount**
Common Shares			
Balance, January 1, 2007	28,511	$	184,212
Issued for cash	6,227		198,228
Share issue costs	-		(10,189)
Tax benefit on share issue costs	-		2,594
Tax effect of 2006 flow-through issue	-		(4,350)
Performance warrants exercised	3		22
Balance, December 31, 2007	34,741	$	370,517
Stock options exercised	6		82
Performance share units exercised	1		13
Tax effect of 2007 flow-through issue	-		(8,282)
Balance, December 31, 2008	**34,748**	**$**	**362,330**

On March 15, 2007, Laricina closed a private placement of 862,300 flow-through common shares at a price of $25.00 per flow-through common share for total gross proceeds of $21.6 million. In accordance with the terms of the offering and pursuant to the Income Tax Act, the Company has renounced, for income tax purposes, exploration expenditures of $21.6 million to the holders of the flow-through common shares effective December 31, 2007. The Company incurred the associated qualifying exploration expenditures by December 31, 2008.

On December 20, 2007, the Company closed a private placement of 5,080,000 common shares at $32.50 per common share for total gross proceeds of $165.1 million.

On December 20, 2007, Laricina closed a private placement of 285,000 flow-through common shares at a price of $40.60 per flow-through common share for total gross proceeds of $11.6 million. In accordance with the terms of the offering and pursuant to the Income Tax Act *(Canada)*, the Company has renounced, for income tax purposes, exploration expenditures of $11.6 million to the holders of the flow-through common shares effective December 31, 2007. The Company incurred the associated qualifying exploration expenditures by December 31, 2008.

Performance Warrants

In conjunction with its initial private placement, the Company granted performance warrants to certain founding directors, officers, employees of, and providers of services to the Company. The performance warrants were issued in five series with the targeted exercise prices ranging from $6.00 to $16.00, vesting over three years, and for each warrant exercised the holder will receive one common share.

		2008		2007
	Number (thousands)	**Weighted Average Exercise Price**	Number (thousands)	Weighted Average Exercise Price
Outstanding, beginning of year	**4,171**	**$ 11.20**	4,221	$ 11.20
Exercised	**-**	**-**	(3)	6.00
Forfeited	**-**	**-**	(47)	11.53
Outstanding, end of year	**4,171**	**$ 11.20**	4,171	$ 11.20
Exercisable, end of year	**4,037**	**$ 11.20**	2,647	$ 11.20

The following table is an analysis of outstanding and exercisable performance warrants as at December 31, 2008:

			Outstanding		**Exercisable**
Exercise Price ($/warrant)	Number (thousands)	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price ($/warrant)	Number (thousands)	Weighted Average Exercise Price ($/warrant)
$ 6.00	834	4.0	$ 6.00	808	$ 6.00
$ 8.00	834	4.0	$ 8.00	807	$ 8.00
$ 12.00	834	4.0	$ 12.00	807	$ 12.00
$ 14.00	834	4.0	$ 14.00	807	$ 14.00
$ 16.00	835	4.0	$ 16.00	808	$ 16.00
	4,171	**4.0**	**$ 11.20**	**4,037**	**$ 11.20**

For the year ended December 31, 2008, compensation cost of $0.9 million ($0.9 million in 2007) has been recognized for performance warrants that have been granted.

The fair value calculation for performance warrants was not required during the years ended December 31, 2008 and 2007 as no performance warrants were issued or required a change in measurement.

7. Share Capital (continued)

Stock Option Plan

The Company has a Stock Option Plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of options. The exercise price and vesting period of options granted is determined by the Board of Directors at the time of grant.

	2008			2007		
	Number (thousands)		**Weighted Average Exercise Price**	Number (thousands)		Weighted Average Exercise Price
Outstanding, beginning of year	**2,249**	**$**	**8.17**	1,737	$	5.05
Granted	**379**		**32.50**	540		18.41
Exercised	**(6)**		**10.00**	-		-
Forfeited	**(40)**		**18.71**	(28)		12.50
Outstanding, end of year	**2,582**	**$**	**11.57**	2,249	$	8.17
Exercisable, end of year	**1,714**	**$**	**5.75**	1,071	$	5.03

The following table is an analysis of outstanding and exercisable options as at December 31, 2008:

			Outstanding				**Exercisable**	
Exercise Price ($/option)		Number (thousands)	Weighted Average Remaining Contractual Life (years)		Weighted Average Exercise Price ($/option)	Number (thousands)		Weighted Average Exercise Price ($/option)
$	5.00	1,719	4.0	$	5.00	1,613	$	5.00
$	12.50	86	5.1	$	12.50	29	$	12.50
$	20.00	403	5.4	$	20.00	72	$	20.00
$	32.50	374	6.3	$	32.50	-	$	-
		2,582	**4.6**	**$**	**11.57**	**1,714**	**$**	**5.75**

For the year ended December 31, 2008, compensation cost of $2.8 million ($1.7 million in 2007) has been recognized for options that have been granted.

The estimated fair value of options was calculated at the date of grant using the Black-Scholes model and the following assumptions:

		2008		2007
Weighted average fair value per option	**$**	**11.40**	$	6.86
Expected volatility (percent)		**25.0**		25.0
Average risk-free interest rate (percent)		**3.4**		4.1
Expected life (years)		**7**		7

Performance Share Unit Plan

The Company has a Performance Share Unit Plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of performance share units ("PSUs"). PSUs have an exercise price of $0.01 per PSU and vest on dates determined by the Board of Directors at the time of grant, and for each PSU exercised the holder will receive one common share. The PSUs outstanding at December 31, 2008, have a weighted average remaining contractual life of 5.6 years.

	2008			2007		
	Number (thousands)		**Weighted Average Exercise Price**	Number (thousands)		Weighted Average Exercise Price
Outstanding, beginning of year	**197**	**$**	**0.01**	44	$	0.01
Granted	**94**		**0.01**	157		0.01
Exercised	**(1)**		**0.01**	-		-
Forfeited	**(4)**		**0.01**	(4)		0.01
Outstanding, end of year	**286**	**$**	**0.01**	197	$	0.01
Exercisable, end of year	**56**	**$**	**0.01**	51	$	0.01

For the year ended December 31, 2008, compensation cost of $1.8 million ($1.6 million in 2007) has been recognized for PSUs that have been granted.

The estimated fair value of PSUs was calculated at the date of grant using the Black-Scholes model and the following assumptions:

		2008		2007
Weighted average fair value per PSU	**$**	**32.49**	$	19.87
Expected volatility (percent)		**25.0**		25.0
Average risk-free interest rate (percent)		**3.4**		4.2
Expected life (years)		**7**		7

Per Share Amounts

The following table summarizes the number of common shares used in calculating net income per common share:

(thousands)	**2008**	2007
Weighted average common shares outstanding – basic	**34,746**	29,362
Effect of performance warrants	**2,734**	1,722
Effect of stock options	**1,567**	1,084
Effect of performance share units	**257**	128
Weighted average common shares outstanding – diluted	**39,304**	32,296

8. Contributed Surplus

		2008		2007
Contributed surplus, beginning of year	$	**6,333**	$	2,072
Performance warrants granted		**922**		927
Performance warrants exercised		**-**		(2)
Stock options granted		**2,828**		1,708
Stock options exercised		**(22)**		-
Performance share units granted		**1,767**		1,628
Performance share units exercised		**(12)**		-
Contributed surplus, end of year	$	**11,816**	$	6,333

9. Commitments

The Company has operating lease obligations on office space until 2011 as follows:

2009	$	1,499
2010	$	1,380
2011	$	1,026

10. Income Taxes

The provision for income taxes differs from the amount which would be expected by applying the combined statutory income tax rates to income before income taxes. A reconciliation of the difference is as follows:

		2008		2007
Loss before income taxes	$	**1,255**	$	2,188
Canadian statutory income tax rate (percent)		**29.50**		32.12
Expected income tax recovery at statutory rate	$	**370**	$	703
Increase (decrease) in income taxes resulting from:				
Non-deductible costs		**(555)**		(1,032)
Recognition of previously unrecognized tax assets		**4,253**		-
Reduction in effective tax rate		**3,446**		-
Reduction in statutory income tax rates		**-**		3,410
Future income tax recovery	**$**	**7,514**	$	3,081

The temporary differences that give rise to the future income tax assets and liabilities are as follows:

		2008		2007
Future income tax liabilities				
Capital assets	**$**	**26,376**	$	23,947
Future income tax assets				
Non-capital losses		**(3,009)**		(1,499)
Share issue costs		**(2,444)**		(3,429)
Capital losses		**(4,263)**		(4,135)
		16,660		14,884
Valuation allowance		**4,263**		4,135
	$	**20,923**	$	19,019

The Company has non-capital losses of $12.0 million which will begin to expire in 2026.

11. Supplemental Cash Flows Disclosure

Changes in non-cash working capital

Cash provided by (used in)		**2008**		2007
Operating activities				
Accounts receivable	**$**	**158**	$	(146)
Prepaid expenses and deposits		**(79)**		(54)
Accounts payable and accrued liabilities		**(261)**		90
	$	**(182)**	$	(110)
Investing activities				
Accounts receivable	**$**	**(1,518)**	$	(630)
Prepaid expenses and deposits		**(115)**		(148)
Accounts payable and accrued liabilities		**583**		4,297
	$	**(1,050)**	$	3,519
Financing activities				
Accounts receivable	**$**	**85**	$	(15)
Accounts payable and accrued liabilities		**(174)**		76
	$	**(89)**	$	61

Other cash flow information

		2008		2007
Interest paid	**$**	**31**	$	-

12. Capital Management

The Company's objectives when managing capital are to safeguard the ability to pursue the acquisition, exploration, development and production of oil sands resources and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

Laricina's capital structure includes the components of shareholders' equity, bank debt and working capital. The Company does not have material operations and the primary assets consist of oil sands properties for potential development. Accordingly, the Company may adjust capital spending, issue new shares, acquire or dispose of assets, enter into joint ventures arrangements or issue new debt to manage the capital structure. Laricina will limit the use of debt primarily to the issuance of letters of credit.

The Company's capital management objectives remain unchanged during the year ended December 31, 2008. Laricina is not subject to externally imposed capital restrictions; however the credit facility referred to in note 6 is secured by the Company's oil sands properties and a security deposit of cash.

13. Financial Instruments

The Company is exposed to certain financial risks from its financial instruments, including credit risk, liquidity risk and market risk.

Credit Risk
Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. This credit exposure is mitigated through credit practices that limit transactions according to counterparties' credit quality. A substantial portion of the Company's accounts receivable are with few joint venture partners in the oil and gas industry and are subject to normal industry credit risk and resolution processes under the joint venture agreements. The maximum credit risk exposure associated with accounts receivable is the total carrying value.

Liquidity Risk
Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liability obligations. The Company manages liquidity risk through the management of its capital structure and timing of discretionary expenditures to ensure it will meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation. Laricina prepares annual expenditure budgets that are monitored on a regular basis and updated as necessary.

As at December 31, 2008, cash was held in a fully liquid, interest bearing operating account and Laricina had $13.4 million available in the bank credit facility to manage its expenditures, if necessary. Accounts payable and accrued liabilities are due within the current operating period.

Market Risk
Market risk is the risk that the value of financial instruments or future cash flows will fluctuate due to movements in market prices, such as commodity prices. Oil prices, natural gas prices and heavy oil differentials fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of Laricina. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Corporate Information

Officers

Glen C. Schmidt
President and CEO

Dave J. Theriault
COO and Vice President Operations

Neil R. Edmunds
Vice President Enhanced Oil Recovery

Karen E. Lillejord
Vice President Finance and Controller

Directors

Jonathan C. Farber [2, 3]
Managing Director, Lime Rock Partners

S. Barry Jackson [3, 4C]
Chairman, TransCanada Corporation

Gordon J. Kerr [2, 4]
President and CEO, Enerplus Resources Fund

Brian K. Lemke [1, 2C]
Independent Businessman and Investor

Robert A. Lehodey, Q.C. [3C, 4]
Partner, Osler, Hoskin & Harcourt LLP

W. Glen Russell [3, 4]
Principal, Glen Russell Consulting

Glen C. Schmidt
President and CEO, Laricina Energy Ltd.

[1] Chairman of the Board
[2] Audit Committee
[3] Governance & Human Resources Committee
[4] Technical Committee
[C] Committee Chairman