LARICINA
ENERGY LTD.

Annual Report 2015

Forward-Looking Statements

This annual report contains certain “forward-looking statements” under applicable securities laws and includes such statements about Laricina Energy Ltd.’s plans that are based on assumptions and that involve risk and uncertainties. Actual results may differ materially. Refer to page 29 for additional information on forward-looking statements.

Letter to Shareholders

As I reflect on 2015, I am encouraged by what we overcame in such a difficult year for the energy industry in general and for Laricina. There are still obstacles to overcome but we are committed to seeing this through, and to put in place a strategy to ensure we can further weather this storm, improve our financial status, rebuild a solid foundation, preserve the value in our long term oil sands assets and look to position Laricina for the future.

Our goal through the restructuring process was to put Laricina back on solid financial footing, manage our creditor obligations, protect the value of our assets and maintain some level of shareholder value. We pursued outside equity investment to assist in paying off creditors; asset sales, joint ventures or a corporate sale; project suspensions to manage cash and liquidity, together with the difficult layoff of personnel; and debt restructuring with our secured creditor, all with the view to re-capitalize the business with sufficient funds to move the business plan forward. With the uncertainty in the energy and financial markets it was difficult to secure the necessary capital and these events did not unfold ideally for all shareholders culminating with the debt restructuring completed on November 30, 2015 which resulted in the secured creditor owning almost 89.0 percent of Laricina's equity. To be sure, shareholder value was significantly reduced – but it wasn't eliminated.

Since our emergence from creditor protection and the seating of the new board of directors (the **Board**) in early February 2016 we have undertaken a strategic planning exercise designed to target specific actions needed to meet both the near term challenges of continuing to reduce costs while managing our assets and the remaining debt of approximately $33.5 million due in early 2018, and position Laricina for the future. Over the coming months we expect more progress will be made on establishing the financial goals and specific actions and path forward.

Key to our recovery was, and is, accessing capital. Today we continue to experience a limited ability to raise capital for potential growth opportunities relative to our oil sands assets, and that limitation is expected to continue until we see a fundamental change in world energy prices driven by a more balanced oil supply/demand outlook. Opportunities may become available to deploy a more diversified investment strategy which can be adapted to economic conditions but access to capital will be needed for those opportunities as well.

The past year was a true test of the resolve and perseverance of Laricina as an organization, its employees, and board members on steering us through the many challenges we faced. I thank all of our current and former employees and board members for their support, tireless effort and action.

We now look forward to working with the new Board on setting out our new course despite the current uncertain markets.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
April 12, 2016

Management's Discussion and Analysis

The following Management's Discussion and Analysis (**MD&A**) of the financial results of Laricina Energy Ltd. (**Laricina** or the **Company**) is as at and for the year ended December 31, 2015, compared to the year ended December 31, 2014. This MD&A should be read in conjunction with the accompanying audited consolidated financial statements and notes thereto of the Company as at and for the year ended December 31, 2015 which is presented in thousands of Canadian dollars except as otherwise noted and was prepared in accordance with International Financial Reporting Standards (**IFRS**). The audited consolidated financial statements for the year ended December 31, 2015 (including comparatives) and this MD&A were approved and authorized for issue by Laricina's Board of Directors on April 12, 2016.

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

Business Overview

Laricina is a non-public, Calgary-based responsible energy company founded in 2005 with the goal to create value by developing Canada's *in situ* hydrocarbon resources using innovative technologies. The Company has a diverse portfolio of oil sands assets at varied stages of development. Two core development areas have been identified, Germain and Saleski. The Company has an undivided interest in Germain and all other oil sands assets with the exception of Saleski for which the Company's working interest is 60.0 percent. Bitumen production volumes and bitumen blend sales volumes are net to Laricina's working interest unless specifically identified as gross volumes.

In the first quarter of 2015, the Company deferred further development of Saleski Phase 1 and suspended operations at the Germain commercial demonstration project (**CDP**). In the third quarter of 2015, Laricina also suspended operations at the Saleski pilot. Concurrent with these events, significant staff and consulting services reductions occurred. These events are further described in the Significant Events for the Year Ended December 31, 2015 section of this MD&A.

The Company's current focus is on preserving the integrity and value of the base assets and on exploring alternatives to potentially resume development of its oil sands properties or exploring opportunities to invest in other oil and gas activities.

Significant Events for the Year Ended December 31, 2015

Following the receipt of a demand for payment of all the outstanding indebtedness by the sole lender and a notice of intention to enforce security against the assets of the Company, the Company and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., filed for and were granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) pursuant to an order of the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the **Court**) dated March 30, 2015 with effect as of March 26, 2015 (the **Initial Order**). The Company was recapitalized on November 30, 2015 pursuant to a settlement arrangement (the **Settlement Agreement**). Laricina continued to be protected from creditors at December 31, 2015 and exited from CCAA protection effective February 1, 2016. The CCAA status and the Settlement Agreement are further described below.

The Company deferred the development of Saleski Phase 1, which has a production capacity of 10,700 gross barrels per day, and suspended operations at the Germain CDP in the first quarter of 2015 in an effort to preserve financial capacity and protect the long-term value of its assets during the CCAA protection/restructuring period. Similarly, and in view of continuing economic uncertainties, Laricina suspended operations at the Saleski pilot in September 2015. Over the course of 2015, the Company's employee workforce was decreased by 90.0 percent and a similar level of consulting services was terminated.

CCAA status and the Settlement Agreement

At December 31, 2014, Laricina did not meet the minimum average daily bitumen production volume covenant for the fourth quarter of 2014 as set out in the indenture dated March 20, 2014 (the **Indenture**) governing the $150.0 million of 11.5 percent senior secured notes (the **Initial Notes**) issued thereunder, which caused such notes and payment-in-kind notes (the **PIK Notes**), also issued under that Indenture in lieu of cash interest payments (collectively the **Notes**), to become payable on demand at the option of the sole lender (the **Noteholder**). This default and the resulting right to demand payment required the Notes to be reclassified to current liabilities at December 31, 2014. The reclassification of the Notes to current liabilities then resulted in a default of the minimum working capital covenant set out in the Indenture. For all fiscal quarters subsequent to December 31, 2014 and including the quarter ended September 30, 2015, the Company did not meet the minimum average daily bitumen production volume and continued to be in breach of the minimum working capital covenant. All defaults and events of default were waived by the Noteholder on November 30, 2015 in accordance with the terms of the Settlement Agreement.

On March 16, 2015, the Noteholder issued an acceleration notice and demand for payment of all the outstanding indebtedness under the Notes or otherwise, including interest and reasonable expenses owing to the Noteholder based upon the outstanding defaults. The Noteholder issued a notice of intention to enforce security against the assets of the Company with its demand for payment. The Noteholder also initiated an application with the Court seeking to put Laricina into receivership and have a receiver sell Laricina's assets. This application was subsequently adjourned indefinitely by the Court and was later withdrawn by the Noteholder on December 18, 2015.

As a result of these actions by the Noteholder, the Company and its wholly owned subsidiaries filed for and were granted creditor protection under the CCAA pursuant to the Initial Order. The CCAA is a Canadian insolvency statute which stays creditors and others from enforcing rights against an insolvent party, such as Laricina, and affords that party the opportunity to restructure its financial affairs. PricewaterhouseCoopers Inc. was appointed by the Court as the monitor (the **Monitor**) to provide oversight of the Company and was responsible for reviewing Laricina's ongoing operations, assisting the Company with the development and filing of a restructuring plan under the CCAA, liaising with creditors and other stakeholders and reporting to the Court.

On April 1, 2015, the Company made a payment to the Noteholder of $20.0 million in accordance with the Initial Order.

On June 28, 2015, Laricina and the Noteholder agreed upon a non-binding term sheet setting out the terms of settlement relating to the repayment of the outstanding indebtedness to the Noteholder. That term sheet resulted in the parties entering into the binding Settlement Agreement on July 20, 2015, and the Court, in the Company's CCAA proceedings, approved that Settlement Agreement on August 5, 2015. The June 28, 2015 non-binding term sheet also led to a hearing on July 22, 2015 to seek approval for a claims process (**Claims Process**), a second cash repayment to the Noteholder and commencement of a marketing process (the **Marketing Process**) designed to solicit a broad range of transaction alternatives.

On July 24, 2015, Laricina paid the second cash payment of $31.4 million to the Noteholder which was applied first to accrued and unpaid interest, then to the reimbursement of reasonable expenses pursuant to the Indenture, and finally as a partial repayment of principal outstanding under the Notes.

The Settlement Agreement established the basis for the repayment in full of the Noteholder (the **Note Repayment Transaction**), subject to the results of the Marketing Process. As part of the Settlement Agreement, the Company negotiated two important provisions, namely:

- Go Shop – Laricina had the right to market its assets with a view to identifying a transaction or transactions with third parties which would enable it to repay the Notes; and
- Fiduciary Out – If Laricina could enter into such a transaction or transactions at any time prior to or on November 30, 2015, where the Notes would be repaid in full no later than January 5, 2016 inclusive of a 3.0 percent premium of the principal amount then outstanding, the Company could terminate the Settlement Agreement and pursue such other transaction and repay the Notes. If this had occurred, the Company would have been required to issue warrants exercisable in the aggregate for the number of common shares that were equivalent to 2.5 percent of the outstanding common shares upon completion of a Note Repayment Transaction (the **Note Repayment Warrants**).

In the case where repayment of the Notes in full was not achieved, the Settlement Agreement provided for the recapitalization of the Company (the **Settlement Transaction**). A third important provision negotiated by the Company in relation to shareholder participation then applied and is described further below.

The Settlement Transaction set out the substantial repayment to the Noteholder (**Amended Notes**) and reasonable expenses owing to the Noteholder through a combination of:

- existing cash and upon receipt of certain receivables (**Anticipated Receivables**);
- proceeds from any potential transactions resulting from the Marketing Process;
- proceeds of a *pro rata* equity private placement (the **Offering**) to Laricina's shareholders (described further below); and
- approximately $30.0 million of the Notes continuing (the **Continuing Notes**)

with any remaining Notes principal being converted to common shares by the Noteholder (the **Note Conversion**), subject to the terms of the Settlement Agreement whereby the Noteholder, together with its affiliates, may not hold in excess of 89.0 percent of the common shares of Laricina on a fully diluted basis. If upon conversion the Noteholder and its affiliates would hold more than 89.0 percent of the equity of Laricina on a fully diluted basis, the portion of the Notes to be converted that would result in equity holdings in excess of that percentage would remain outstanding post-closing and be added to the Continuing Notes. The Offering and the Note Conversion were to be conducted at the same price of $0.12 per common share. The Offering allowed shareholders to participate in the restructuring of the Company and to protect their *pro rata* equity interests. Furthermore, shareholders had an opportunity to subscribe for additional shares that were not subscribed for by other shareholders.

On August 20, 2015 and on October 1, 2015, the Company made payments to the Noteholder of $1.2 million and $1.9 million, respectively, in accordance with the terms of the Settlement Agreement wherein certain insurance proceeds were defined as Anticipated Receivables and were required to be remitted within two business days of receipt. All amounts were applied as a reduction to principal on the outstanding indebtedness.

On November 30, 2015, proceeds of $0.7 million were received from the Offering and 6.0 million common shares were issued.

On November 30, 2015, the Settlement Transaction was completed with principal terms as follows:

- A payment of $14.4 million was made to the Noteholder from cash on hand and the proceeds of the Offering with $10.5 million applied to the principal outstanding and the residual $3.9 million applied to interest owing;
- $60.0 million of the Notes were converted to 500.0 million common shares at a price of $0.12 per common share issued to the Noteholder, such conversion amount being restricted at the aforementioned 89.0 percent ownership;
- $44.1 million of the principal amount of the Continuing Notes remained outstanding and continues to be governed by the Indenture which was amended upon completion of the Settlement Transaction (the **First Supplemental Indenture**) and bears an interest rate of 13.5 percent per year, of which interest will be paid through the issuance of PIK Notes, which also bear an interest rate of 13.5 percent per year, until the maturity date of such Continuing Notes on March 20, 2018; and
- The Noteholder was issued 28.8 million warrants (**Consent Fee Warrants**) which vested immediately upon issue and have an exercise price of $0.25 per warrant and an expiry date of March 20, 2018. The 3.8 million warrants issued in March 2014 and held by the Noteholder were surrendered and cancelled.

As a result of the demand for repayment of the Notes by the Noteholder on March 16, 2015, an acceleration payment (**Acceleration Payment**) amount equivalent to 6.0 percent of the principal amount of the Notes then outstanding became immediately payable. A provision of $9.7 million was recorded in accrued liabilities as of December 31, 2014 for the Acceleration Payment associated with the Notes. Upon completion of the Settlement Transaction on November 30, 2015 and in accordance with the terms of the Settlement Agreement, the Noteholder waived all defaults and events of default and released the Company from the $9.7 million Acceleration Payment obligation.

On December 10, 2015, a payment of $10.6 million arising from the proceeds from the Government of Alberta for compensation in relation to the cancellation of leases under the Urban Development Sub-region (the **UDSR**) and the Company's claims thereto, as described in the Capital Investment section of this MD&A, was made to the Noteholder and applied as a reduction to the outstanding Continuing Notes. Under the Settlement Agreement, these proceeds were considered Anticipated Receivables and were required to be remitted.

On December 18, 2015, the Company obtained a further order from the Court that extended creditor protection and the stay of proceedings against the Company and its subsidiaries under the CCAA until and including February 1, 2016 and approved the payment of proven claims under the Claims Process without compromise to the unsecured creditors. The Court also ordered the receivership application of the Noteholder to appoint a receiver over the Company filed on March 30, 2015 withdrawn.

Laricina was granted a final court order from the Court on January 28, 2016 to exit from the protection under the CCAA and concluding the stay of proceedings against the Company and its subsidiaries, effective upon the filing of the Monitor's certificate, which occurred on February 1, 2016. The Company has paid in full all accounts in respect of its CCAA proceedings. At the time of the final court order, Laricina was required to set aside a reserve of $1.8 million against which the payment of the remaining unpaid proven claims and an outstanding disputed claim will be drawn. To the extent that any proceedings regarding claims by or against Laricina are ongoing, these will continue on the timetables set by the Court or the parties until they are concluded.

Pursuant to the terms of the Settlement Agreement, the Board of Directors of Laricina was reconstituted on February 5, 2016. By virtue of the Noteholder and its affiliates' ownership interest in the equity of Laricina, the Noteholder was entitled to nominate three of the five directors. The Company, under the new Board, is reviewing Laricina's business plan and changes to the business plan and/or management are possible.

Summary Annual Financial Information

For the years ended December 31	**2015**	2014	2013
Total assets	**487,338**	1,177,925	1,372,094
Working capital	**43,798**	3,899	143,255
Cash capital expenditures (recovery)[1]	**(4,102)**	45,793	174,386
Bitumen blend sales revenue	**4,530**	24,072	6,861
Finance and other income	**12,734**	16,894	11,059
Loss and comprehensive loss	**715,641**	359,866	42,606
Loss per share – Basic and diluted	**6.34**	5.21	0.63

(1) Cash capital expenditures (recovery) include cash expenditures on exploration and evaluation assets, property, plant and equipment, capitalized general and administrative expenses, and any reversals or offsets thereto.

Total assets

Total assets decreased by $690.6 million in 2015 primarily as a result of the $528.6 million impairment loss associated with exploration and evaluation (**E&E**) assets and intangible assets, and the $68.8 million cash repayment of Notes, Amended Notes and Continuing Notes. To a lesser extent, working capital funding, debt service costs and depreciation and amortization expense comprised the remainder of the decrease.

In 2014, total assets decreased by $194.2 million principally as a result of a $195.2 million impairment loss in relation to the E&E assets, intangible assets and other long term assets.

Working capital

Working capital as at December 31, 2015 was higher than working capital as at December 31, 2014 by $39.9 million because of the reclassification of the Continuing Notes and PIK Notes to non-current liabilities and reduced trade and other payables, partially offset by lower cash, restricted cash and short-term investment balances.

Working capital as at December 31, 2014 was lower than working capital as at December 31, 2013 by $139.4 million because of the reclassification of the Notes to current liabilities, partially offset by higher cash and short-term investments balances and lower trade and other payables obligations.

Cash capital expenditures (recovery)

The cash capital recovery in 2015 is primarily due to the collection of a $7.8 million claim owed to the Company by the Government of Alberta for compensation related to the UDSR claim.

In 2014, cash capital expenditures predominantly consisted of the advancement of the detailed engineering and design for Saleski Phase 1. Additional details relating to cash capital expenditures and recoveries are described in the Capital Investment section of this MD&A.

In 2013, cash capital expenditures mainly consisted of the construction and commissioning of the Germain CDP. To a lesser extent the advancement of Saleski Phase 1 front-end engineering, drilling and development activities at the Saleski pilot, seismic and reservoir studies for other of Laricina's oil sands properties and capitalized general and administrative costs directly related to project exploration and development activities accounted for the balance of outlays.

Bitumen blend sales revenue

Bitumen blend sales revenue was at its highest in 2014 as a result of initial production at the Germain CDP and continued production from the Saleski pilot. In 2015, both projects were suspended in an effort to conserve capital and preserve the value of the underlying assets. The Results of Operations section of this MD&A provides further commentary around these changes.

Finance and other income

Finance income and other income results fluctuate year over year as a result of the average funds held on deposit and third-party use of the camps and the road, respectively. Details of these changes for 2014 and 2015 are discussed in the Corporate Results section of this MD&A.

Loss and comprehensive loss

An impairment loss of $528.6 million recorded in 2015 and of $195.2 million recorded in 2014 was the primary contributor to the loss and comprehensive loss sustained by the Company in each of those years. Further discussion of the loss and comprehensive loss for each of these years is described in the Corporate Results section of this MD&A.

The loss and comprehensive loss in 2014, relative to 2013, was also impacted by the initial operating costs associated with the Germain CDP which were capitalized previously, commencement of depreciation of certain components of the Germain CDP and finance expenses associated with the Notes.

Oil Sands Reserves[1] and Resources[2]

The Company's independent reserve evaluators, GLJ Petroleum Consultants Ltd. (**GLJ**), completed an independent reserves and resource assessment evaluation on all of the Company's properties effective December 31, 2015 (collectively the **GLJ Report**) which represents 100.0 percent of Laricina's net land base.

Laricina has focused on four bitumen-bearing geological formations for development: the Grand Rapids and McMurray sands, and the Grosmont and Winterburn carbonates. The Company's bitumen reserves and resources are located in the Germain, Saleski, and Burnt Lakes areas in the west Athabasca oil sands region; and Conn Creek, Poplar Creek, Portage, Boiler Rapids, House River, Thornbury and Thornbury West in the east Athabasca oil sands region. The Company has a 60.0 percent working interest in Saleski and a 100.0 percent working interest in all other properties. Laricina is the operator of all its properties. Recovery methods including steam-assisted gravity drainage (**SAGD**), cyclic-SAGD (**C-SAGD**), solvent-cyclic SAGD (**SC-SAGD**) and cyclical steam stimulation (**CSS**) were used when evaluating the resource potential of each reservoir.

Reserves

Laricina's bitumen reserves are associated with, and represent a portion of the bitumen recoverable resource volumes at the Company's Germain Grand Rapids asset, where Laricina has received, or applied for, regulatory approval for commercial bitumen recovery schemes. The Company has probable reserves of 389 million barrels and probable plus possible reserves of 468 million barrels as at December 31, 2015, lower than the 489 million barrels and 575 million barrels, respectively, estimated at the previous year-end. The reduction is due to de-classification of reserves at Saleski to contingent resources and production at Germain during the year. Economic sensitivities, based on GLJ's January 1, 2016 price forecast, performed on the Saleski Phase 1 project determined that the project did not meet the economic threshold for reserves classification. Economic forecasts were not generated by GLJ on assigned reserves; however, based on the 2014 economic forecasts combined with expected changes to timing, costs and price forecasts, the reserves are expected to remain economic to develop at a minimum 10.0 percent present value of future net revenue before tax based on forecast prices and costs. All of the reserves assigned are classified as undeveloped as of the effective date.

(1) The Canadian Oil and Gas Evaluation Handbook (the **COGE Handbook**) defines probable reserves as those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved reserves plus probable reserves. The COGE Handbook defines possible reserves as those additional reserves that are less certain to be recovered than probable reserves. Reserves at Germain are based on SAGD technology.

(2) COGE Handbook defines contingent resources as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated recoverable quantities associated with a project in early evaluation status. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

Contingent Resources

The following table summarizes the Company's working interest best estimate contingent resources unrisked and risked volumes, by property.

Property(1)	Best Estimate Contingent Unrisked Resources (millions of barrels)	Aggregated Risk (Chance of Development) (percent)	Best Estimate Contingent Risked Resources (millions of barrels)
Sub-class – Development Unclarified			
Saleski - Grosmont C(2)	298	62	185
Saleski - Grosmont D(2)	550	43	238
Germain Grand Rapids	933	64	598
Conn Creek	195	49	95
Poplar Creek	91	34	31
Portage	58	40	23
	2,126	55	1,171
Sub-class – Development Not Viable			
Other Properties	250	29	73
Total(3)	**2,376**	**52**	**1,244**

Note: Columns may not add due to rounding.

(1) Contingent resource estimates for Germain Grand Rapids, Conn Creek, and Poplar Creek are based on SC-SAGD technology; Other Properties are based on SAGD technology; and Saleski is based on CSS technology.

(2) Laricina's resources at Saleski are contained in the Grosmont Formation a carbonate reservoir. SAGD and CSS are established technologies that have been demonstrated to be commercially viable in certain sandstone reservoirs; C-SAGD is a modification of these techniques. C-SAGD has been applied at the Saleski pilot demonstrating commercial viability specifically for the subject reservoirs. There are no known operating commercial projects that use SAGD, C-SAGD or CSS technologies to recover bitumen from a carbonate formation.

(3) These volumes are arithmetic sums of the Company's working interest share before royalties, which statistical principles indicate may be misleading as to volumes that may actually be recovered. Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class as explained.

The project maturity sub-classes and risk factors (chance of development) for the contingent resources have been assessed based upon the technology status, economic status and project evaluation scenario status. Project maturity describes the stage of an exploration or development project and broadly corresponds to the chance of commerciality of the project. The project maturity sub-classes (in order of increasing chance of commerciality) are: development not viable, development unclarified, development on hold and development pending. The boundaries between the maturity sub-classes represent "decision gates" that reflect the actions (business decisions) required by the resource owner to move the project up the maturity "ladder" toward commercial production. The project maturity sub-class is accompanied by an estimate of the probability of progressing to the next level of maturity, which is independent of the uncertainty associated with the range of recoverable volumes.

Development Unclarified is where the evaluation is incomplete and there is ongoing activity to resolve. Snapshot characteristics for this class specific to Laricina's assets are:

- Pre-development project evaluation scenario;
- Established technology or technology under development;
- Economic status or economic status undetermined; and/or
- Evaluation ongoing, contingencies may not be fully defined.

The following non-technical contingencies specific to Laricina's contingent resources development unclarified prevent the classification of reserves at this time. Steps needed to remove these contingencies are also included below:

- Delineation drilling – although the "known accumulation" criteria have been satisfied for the properties, additional drilling within the discovered lands is required to improve reservoir characterization prior to project execution;
- Regulatory approvals – the submission of the regulatory application for development typically confirms a level of company commitment and advanced development planning including project feasibility and technical studies suitable for an investment decision;
- High quality project cost estimates – high quality capital cost estimates are required to confirm positive project economics. The Company must provide internal cost studies specific to a proposed development in each property including the results of their engineering design specification cost study;
- Economic studies – economic forecasts have not been prepared for the contingent resources sub-classified as development unclarified. Considering both the per well economic threshold for development and the project sizes in comparison to commercially successful *in situ* projects in operations, Laricina's development unclarified sub-class is also considered to have economic status but further detailed economic studies and forecasts are required to confirm positive project economics; and/or
- Firm development plans and company commitment – planning of well layouts and pad locations as well as confirmation of corporate intent to proceed within a reasonable timeframe.

Development Not Viable is where no further data acquisition or evaluation is currently planned and hence there is a low chance of development. Snapshot characteristics for this class specific to Laricina are:

- Pre-development or conceptual project evaluation scenario;
- Established technology or technology under development;
- Sub-economic or economic status undetermined; and/or
- No further data collection or plans to proceed for foreseeable future.

Development not viable resources are not expected to be economic using current technology or technology under development, and using a reasonable development plan, costs and pricing assumptions. Significant cost reductions, commodity price increases or technology improvements are likely required to render these projects as viable. Though economics were not calculated the economics can be inferred by analogy to similar projects. The same non-technical contingencies outlined above for Laricina's development unclarified resources, in combination with confirmation of economic status; prevent the classification of not viable recoverable resources to reserves at this time.

The GLJ Report identified development unclarified best estimate unrisked contingent resources of 2,125 million barrels at December 31, 2015, lower than the 3,651 million barrels reported at December 31, 2014 for the equivalent properties. The key changes in the unrisked volumes were:

- Saleski
  - Reclassification of reserves (+100 million barrels);
  - Removed contingent resources assigned to the Ireton due to changes in assumptions and technical revisions (-479 million barrels);
  - Lowered the recovery factor assumption in the Grosmont D (-263 million barrels); and
- The Company's carbonate assets in Burnt Lakes and Germain Winterburn, which were assessed by GLJ for the year ended December 31, 2014, were not assessed for the year ended December 31, 2015. The technology considered in the development of these assets is experimental with no commercial analogues within close proximity (-883 million barrels).

Best estimate prospective unrisked resources were 9 million barrels reported as at December 31, 2015 as compared to 225 million barrels previously reported. The decrease in best estimate unrisked prospective resources is a result of removing un-mapped or mapped areas with limited well control at Conn Creek, Boiler Rapids, House River, and Thornbury West. Best estimate prospective risked resources at December 31, 2015 were 2 million barrels and sub-classified as prospective resources – prospect.

The scope of the GLJ Report did not include estimates for the low and high estimate contingent resources.

No economic evaluation was requested to be prepared on the reserves and resources due to the uncertainty in assumptions, including but not limited to, timing of development, price forecasts, and available financing. However, economic sensitivities were completed using GLJ's January 1, 2016 price forecasts to ensure the reserve and resource volumes complied with the COGE Handbook.

Laricina has explored and delineated the geological formations throughout its portfolio of properties. At December 31, 2015, Laricina has a total of 394 delineation wells on its operated lands, of which approximately 70.0 percent are at Saleski and Germain. Delineation wells and the Company's overall confidence in its development plans, and the regulatory applications, as well as fulfilling lease retention requirements support the recoverable resource estimates provided by GLJ.

Results of Operations

For the years ended December 31	**2015**	2014
Bitumen blend sales revenue	**4,530**	24,072
Royalties	**(48)**	(888)
Net operating revenue[1]	**4,482**	23,184
Transportation and blending expenses	**3,375**	12,308
Operating expenses	**25,465**	68,786

(1) A non-IFRS measure as defined in the Non-IFRS Measurements section of this MD&A.

Bitumen blend sales revenue

During 2015 and 2014, the Company derived bitumen blend sales revenue from production at the Saleski pilot and the Germain CDP. The Company suspended operations at the Germain CDP and Saleski pilot in March 2015 and September 2015, respectively. The Company took these actions in an effort to conserve capital and protect the long-term value of the assets.

(barrels)	**2015**	2014
Saleski pilot bitumen production volumes	**64,163**	97,962
Germain CDP bitumen production volumes	**36,473**	192,146
Bitumen production volumes	**100,636**	290,108
Bitumen blend sales volumes	**135,032**	355,119

Bitumen production volumes decreased to 100,636 barrels in 2015 from 290,108 barrels in 2014 mainly as a result of operations at both facilities being suspended during the year.

The remaining change in volumes is the result of the Saleski pilot being experimental in nature and as such, bitumen production and bitumen blend sales volumes fluctuate with the alternating cycles of steam injection and bitumen production when the facility is operating. The Company is using the results of the pilot to enhance its understanding of the Grosmont reservoir including tests of the connectivity between the C and D zones. Production cycles and bitumen production volumes from the Grosmont C zone reinforce the expectation that commercial levels of production are achievable from the C zone.

Bitumen blend sales revenue decreased from $24.1 million in 2014 to $4.5 million in 2015 primarily due to the suspension of both facilities in 2015 combined with a decrease in the average realized sales price per barrel of bitumen blend. The decrease in average realized sales price is a result of the lower West Texas Intermediate (**WTI**) benchmark and a widening of the differentials between WTI and Laricina's average blend price, partially offset by a weakening of the Canadian dollar relative to the United States (**US**) dollar.

	2015	2014
Average realized sales price per barrel (Cdn $/barrel)	**$ 33.55**	$ 67.79
WTI (US $/barrel)	**$ 48.80**	$ 93.00
WTI (Cdn $/barrel)	**$ 62.59**	$ 102.55
Western Canadian Select (Cdn $/barrel)	**$ 45.14**	$ 81.11

Laricina's average sales price per barrel of bitumen blend is net of terminal fees and other direct charges related to transportation.

Royalties

Crown royalties are paid on bitumen sales volumes from the Saleski pilot and the Germain CDP based on applied royalty rates determined by the Government of Alberta. Royalties decreased by $0.8 million during 2015 compared to 2014, largely an outcome of decreased bitumen sales volumes from the suspension of both facilities and, to a lesser extent, declining royalty rates.

Transportation and blending expenses

Transportation and blending expenses include the cost of diluent purchased for blending with the produced bitumen and the cost of transporting the bitumen blend sales volumes to sales terminals.

The decrease to $3.4 million in 2015 from $12.3 million in 2014 is mainly a result of a decrease in bitumen production due to the suspension of operations at the Germain CDP and the Saleski pilot. The remaining change is largely the result of the lower price for and quantity of diluent used in blending.

Transportation and blending expenses will not be incurred in 2016 unless operations resume at the Saleski pilot and/or Germain CDP.

Operating expenses

Operating expenses for the Company consist of operating costs and suspension costs associated with the Germain CDP and the Saleski pilot, and costs related to the use of Laricina's camps by third parties and maintenance of the Chip Lake access road.

The $43.3 million decrease in operating expenses between 2015 and 2014 is primarily due to the suspension of operations at the Germain CDP and the Saleski pilot, and a decrease in variable costs associated with the third-party use of Laricina's camps. During 2015, Laricina received $5.1 million of insurance proceeds related to a third-party natural gas pipeline break which interrupted the Germain CDP start-up during the fourth quarter of 2013. These proceeds were offset against operating expenses.

Operating costs are expected to be lower in 2016 as compared to 2015 due to the suspension of operations at the Saleski pilot and Germain CDP.

Summary Corporate Results

For the years ended December 31	**2015**	2014
Other income	**8,661**	13,959
General and administrative expenses, net	**22,439**	34,329
Depreciation and amortization	**17,017**	32,402
Impairment loss	**528,603**	195,211
Finance income	**4,073**	2,935
Finance expense	**6,732**	46,024
Loss on substantial modification of notes	**118,353**	-
Reorganization expense	**10,730**	-
Loss and comprehensive loss	**715,641**	359,866

Other income

Other income consists of fees charged to third parties for the use of Laricina's camp facilities and road.

Other income decreased to $8.7 million in 2015 from $14.0 million in 2014 primarily as a result of a decrease in third-party use of Laricina's camps.

General and administrative expenses

For the years ended December 31	**2015**	2014
General and administrative expenses, gross	**24,103**	28,551
Share-based compensation costs	**(2,488)**	10,185
Capitalized costs	**824**	(4,407)
General and administrative expenses, net	**22,439**	34,329

Net general and administrative expenses decreased from $34.3 million in 2014 to $22.4 million in 2015 as various measures were taken by Laricina to reduce costs including the suspension of employee salary increases and performance-based bonus programs, a 90.0 percent reduction in the number of employees and a similar level of curtailment to consulting services. The Company incurred gross severance costs of $6.5 million in 2015 of which $4.8 million was included in general and administrative expenses and the balance in operating costs. A court order under the CCAA proceedings held on April 22, 2015 approved the use of a key employee retention plan (the **KERP**) for certain remaining employees. The KERP provided for $2.3 million of retention payments to certain employees at the earlier of involuntary termination or December 31, 2015. Of the $2.3 million KERP provision, $2.0 million of KERP was paid during the year for employees who met the aforementioned conditions and $0.3 million was forfeited by employees who voluntarily terminated their employment. Of the $2.0 million of gross KERP payments made, $1.6 million was included in general and administrative expenses and the remainder reflected in operating expenses.

The execution of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements. The executive officers so affected have the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. The maximum liability to which the Company is exposed in this regard is $2.1 million, settlement of which will conclude before the end of the third quarter of 2016.

Laricina's share-based compensation consists of costs associated with stock options and performance share units (**PSUs**) granted to directors, officers, employees of, and providers of services to the Company. The Company applies the fair value method for stock options and PSUs based on the estimated fair value of the stock options or PSUs on the grant date using the Black-Scholes pricing model. Share-based compensation costs are recognized over the vesting period of the award. There was a recovery of share-based compensation costs in 2015, as compared to share-based compensation expenses in 2014, primarily due to the reduction in the number of employees and the resulting forfeitures of unvested stock options and PSUs. This recovery of share-based payments was partially offset by compensation costs for expired stock options that were previously reversed in the prior year. The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the Board of Directors on February 5, 2016 was deemed a change of control under the provisions of Laricina's share-based compensation plans. As a result of both these events, accelerated vesting of all unvested stock options and PSUs as of February 5, 2016 occurred subsequent to year-end.

Capitalized costs consist of general and administrative costs directly related to project exploration and development activities. The decrease in capitalized costs in 2015, as compared to 2014, is primarily the result of the Company ceasing to capitalize costs, coinciding with the deferral of Saleski Phase 1 in the first quarter, and the reversal of previously capitalized costs concurrent with the forfeitures of unvested stock options and PSUs.

As at December 31, 2015, there were 20 employees and a small complement of consultants to steward and operate the business.

Depreciation and amortization

The Company ceased depreciation and amortization at the Germain CDP and the Saleski pilot at the end of the first and third quarters respectively, corresponding with the suspension of operations at the respective facilities. Due to the suspension of operations, the depreciation and amortization expense decreased from $32.4 million in 2014 to $17.0 million in 2015. Beginning January 1, 2015, the Company ceased the recapitalization of the Germain CDP depreciation and amortization as the recoverable amounts approximated their carrying values. Recapitalization of depreciation and amortization associated with the Saleski pilot was discontinued September 1, 2015 coinciding with the commencement of activities to suspend operations.

Impairment loss

At December 31, 2015, the Company identified indications of impairment for all cash generating units (**CGUs**) due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. As a result, the Company recorded an impairment loss of $528.6 million. This impairment loss is comprised of $175.3 million, $321.2 million, $18.9 million and $13.2 million related to the Saleski CGU, Germain CGU, Burnt Lakes CGU and Other CGU, respectively. This resulted in $498.4 million of impairment loss related to E&E assets and $30.2 million related to intangible assets at the Saleski CGU.

During the year ended December 31, 2014, the Company recorded an impairment loss of $195.2 million. This impairment loss consisted of $136.9 million, $57.1 million and $1.2 million related to the Germain CGU, Burnt Lakes CGU, and other long-term assets, respectively. The impairment of the Germain CGU included $121.1 million related to E&E assets and $15.8 million related to intangible assets. The impairment loss on other long-term assets related to investment tax credits associated with Scientific Research and Experimental Development (**SR&ED**) claims as it is not probable that future taxable profits will be available for which the benefits can be utilized.

For purposes of determining whether impairment of E&E assets, property, plant and equipment and intangible assets exists, management exercises their judgement in estimating the fair value less costs to dispose.

Finance income

Finance income for 2015 and 2014 primarily consists of interest earned on cash and short-term investments.

The increase in finance income of $1.1 million is largely the result of recognizing interest of $2.8 million in the second quarter of 2015 related to the reimbursement of expenditures associated with the UDSR claim as further described in the Capital Investment section of this MD&A. This increase is partially offset by a decrease in funds held on deposit and lower interest earned.

Finance expense

Finance expense consists of amortization of debt issue costs, interest recognized on the Notes, Amended Notes and Continuing Notes, a provision for the Acceleration Payment on the Notes, the changes in fair value upon re-measurement of the Consent Fee Warrants liability, accretion for the site restoration provision, accretion associated with the amortized cost of the Amended Notes and Continuing Notes and interest associated with finance leases. Refer to note 15 of the consolidated financial statements as at and for the year ended December 31, 2015 for a detailed composition of finance expense.

Finance expense was $39.3 million lower in the year ended December 31, 2015, as compared to the same period in 2014, due to the reversal of the Acceleration Payment provision upon the Noteholder's waiver of all defaults and events of default and release from this obligation, recoveries recognized relative to the changes in fair value upon re-measurement of the Consent Fee Warrants liability and a decrease in the amortization of debt issues costs associated with the Initial Notes. These decreases were partially offset by the accretion associated with the amortized cost of the Amended Notes and Continuing Notes and recognition of a full year of interest expense at an interest rate that is 200 basis points higher than in the previous year.

The Company continued to pay interest to the Noteholder while under CCAA protection. As a result of the events of default at December 31, 2014, the Company was restricted from issuing PIK Notes in lieu of payment of interest. Under a provision in the Settlement Agreement, Laricina resumed issuing PIK Notes for interest payments and reimbursable costs of the Noteholder effective July 23, 2015.

Loss on substantial modification of notes

As a result of the Court approval of the Settlement Agreement on August 5, 2015, the terms of the Indenture were substantially modified with the inclusion of the Note Conversion feature. The substantial modification of the terms resulted in the application of extinguishment accounting causing the derecognition of the Notes and the recognition of the liability and equity components of the Amended Notes, Consent Fee Warrants and Repayment Fee Warrants at fair value with the $118.4 million difference being the loss on substantial modification of the Notes.

Reorganization expense

All expenses that have resulted from reorganization activities related to the CCAA proceedings are reported separately from ongoing operations of the business as reorganization expense.

Reorganization expense of $10.7 million incurred during the period ended December 31, 2015 was comprised of legal, monitoring and professional advisory fees associated with the CCAA proceedings. The reorganization expense includes the Noteholder's costs pursuant to a requirement in the Indenture to reimburse reasonable costs of the Noteholder.

Income taxes

The Company and its subsidiaries are not currently cash taxable. The Company has not recognized deferred income tax assets in respect of deductible temporary differences and non-capital loss carry-forward balances due to the material uncertainties associated with the probability of generating future taxable profits. In the year ended December 31, 2014, the Company derecognized $10.7 million of deferred income tax assets for this reason.

Effective July 1, 2015, the Alberta provincial tax rate changed from 10.0 percent to 12.0 percent. The rate change resulted in an additional $13.4 million of unrecognized deferred income tax assets.

The completion of the Settlement Transaction on November 30, 2015 resulted in an acquisition of control for tax purposes. As a consequence, the Company's non-capital losses and SR&ED carry-forwards generally only can be used to apply to income derived from the "same or similar" business. The exploration and development expenditures tax pools are subject to successor corporation rules and generally only can be applied to income derived from the resource properties held prior to the acquisition of control.

Loss and comprehensive loss

Loss and comprehensive loss increased by $355.8 million for the year ended December 31, 2015 relative to the corresponding period in 2014 mainly a result of an impairment loss of $528.6 million and a loss on substantial modification of the Notes of $118.4 million under the Settlement Agreement. The remaining change is due to increased finance expense for the accretion associated with the amortized cost of the Amended Notes and Continuing Notes, lower other income due to a decrease of third-party camp usage, reduced bitumen blend sales revenue, the costs of suspending operations at the Germain CDP in the first quarter of 2015 and the Saleski pilot in the third quarter of 2015, severance costs associated with employee reductions during 2015, reorganization costs incurred while under the CCAA protection and no deferred income tax recovery. These increases were partially offset by the Company being released from the Acceleration Payment obligation and recognizing a recovery for this amount, a recovery of finance expense due to the change in fair value upon re-measurement of the Consent Fee Warrants, lower transportation and blending expenses, operating expenses and depreciation and amortization as a result of the suspension of operations and lower general and administrative expenses as a consequence of reductions in the number employees and quantum of consulting services.

Capital Investment

Capital investment includes costs related to E&E assets, property, plant and equipment (**PP&E**), capitalized general and administrative expenses, and non-cash expenditures.

For the years ended December 31	**2015**	2014
Exploration and evaluation assets:		
Saleski	**3,117**	24,822
Germain	**-**	14,616
Other	**(7,801)**	810
Cash expenditures (recovery) on E&E	**(4,684)**	40,248
Cash expenditures on PP&E	**91**	1,382
Cash expenditures on capitalized general and administrative expenses	**491**	4,163
Total cash capital expenditures (recovery)	**(4,102)**	45,793
Non-cash capital expenditures and provisions[(1)]	**48**	(22,893)
Total capital expenditures (recovery)	**(4,054)**	22,900

(1) Non-cash expenditures include non-cash capitalized general and administrative and provisions for site restoration.

Saleski exploration and evaluation assets

The Company suspended operations at the Saleski pilot during the third quarter of 2015 in an effort to conserve cash and preserve the value of the assets. There has been minimal capital activity in 2015 as Laricina deferred further development of Saleski Phase 1 until additional project financing becomes available. The Company reached approximately 80.0 percent completion of detailed engineering and design for Saleski Phase 1 before the decision to defer further development of the project was made in the first quarter of 2015. These expenditures were partially offset by the Company's recognition of the refundable portion of the Alberta tax credit for the 2010 and 2011 SR&ED claims. Of the $0.8 million refundable portion, $0.6 million is applicable to capitalized amounts. Development activities in 2014 primarily consisted of the drilling of an additional D-zone well at the Saleski pilot and continued advancement of Saleski Phase 1 including detailed engineering and design, purchases of long-lead equipment and initial site preparation.

Laricina's 2015 exploration expenditures at Saleski included the acquisition of 1.1 square kilometres (**square-km**) of four-dimensional (**4-D**) seismic. During 2014 exploration activities also included the acquisition of 1.1 square-km of 4-D.

At December 31, 2015 and 2014, Laricina's total land holdings at Saleski were 25,728 net acres.

Germain exploration and evaluation assets

During the first quarter of 2015, Laricina suspended operations at the Germain CDP and, as a result, there were no capital expenditures at Germain during 2015. During 2014, capital expenditures consisted of the conversion of well-pairs from steam injection to bitumen production and the construction of a solvent recovery unit at the Germain CDP.

In 2014, exploration activities at Germain included the acquisition of 1.6 square-km of 4-D seismic and one exploration well. There was no exploration activity during 2015 at Germain.

At December 31, 2015 and 2014, the Company's total land holdings at Germain were 44,161 net acres.

Other exploration and evaluation assets

Other capital expenditures in 2015 and 2014 primarily related to the ongoing maintenance of Laricina's remaining oil sands properties. In 2015, there was a cash capital recovery for a $7.8 million claim owed to Laricina by the Government of Alberta for compensation in relation to the cancellation of leases under the UDSR. The UDSR is a designated area of land surrounding Fort McMurrary, Alberta created for future urban expansion and certain portions of the Company's Conn Creek and Poplar Creek properties were impacted. The compensation received approximated the carrying value of the leases that were cancelled. The Company also received $2.8 million of interest relating to the reimbursement of expenditures associated with the UDSR claim.

Land holdings of the remaining properties were 129,307 net acres at December 31, 2015 and were 134,427 net acres at December 31, 2014.

Property, plant and equipment

Property, plant and equipment additions during 2015 and 2014 were for corporate assets related to information technology.

Cash expenditures on capitalized general and administrative expenses

Capitalized general and administrative costs consist of expenses directly related to project exploration and development activities. As a result of the deferral of the Saleski Phase 1 development in the first quarter of 2015, the Company no longer capitalized general and administrative costs.

Non-cash capital expenditures

Non-cash capital expenditures during 2015 consisted largely of the change in rate associated with the provision for future site restoration and the recovery of previously capitalized non-cash share-based payments. Non-cash capital expenditures during 2014 consisted primarily of the change in rate associated with the provision for the future site restoration and the capitalization of non-cash share-based payments.

Intangible Assets

Laricina recorded intangible assets for the recapitalization of depreciation of certain components of the Saleski pilot and the Germain CDP. Components that were recapitalized consist of items that directly relate to Laricina's understanding of the reservoir and assist in the future assignment of proved reserves.

On January 1, 2015, the Company ceased recapitalization of depreciation for the Germain CDP as the recoverable amount of the Germain cash generating unit approximates its carrying value. The Company ceased recapitalization at the Saleski pilot on September 1, 2015, concurrent with the commencement of the suspension of operations.

During 2015, the Company recorded $5.5 million of recapitalization for the Saleski pilot, as compared to $23.3 million for both the Saleski pilot and the Germain CDP in the year prior. The Company recorded a $30.2 million impairment loss in 2015 related to the recapitalization of certain components of the Saleski pilot. In 2014, an impairment loss to intangible assets of $15.8 million related to the recapitalization of certain components of the Germain CDP was recognized.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**	**Q3 2014**	**Q2 2014**	**Q1 2014**
Working capital (deficiency)	**43,798**	(56,341)	(30,414)	(27,370)	3,899	192,657	218,508	252,215
Cash capital expenditures (recovery)	**818**	394	(8,194)	2,880	7,824	9,143	12,253	16,573
Bitumen blend sales revenue	**(10)**	791	1,952	1,797	5,702	7,713	6,880	3,777
Finance income	**90**	273	3,165	545	746	758	889	542
Other income	**2,556**	2,699	1,579	1,827	4,124	3,110	1,396	5,329
Loss and comprehensive loss	**198,203**	464,293	15,453	37,692	284,353	25,236	27,339	22,938
Loss per share - Basic and diluted	**$ 0.82**	$ 6.65	$ 0.22	$ 0.54	$ 4.08	$ 0.36	$ 0.40	$ 0.34

Working capital (deficiency)

Positive working capital in the fourth quarter of 2015 is primarily a result of the reclassification of the Continuing Notes balance from current liabilities to non-current liabilities following the completion of the Settlement Transaction and the Noteholder's waiver of all defaults and events of default. Laricina had previously reclassified the Notes to current liabilities on December 31, 2014 due to the failure to meet the minimum average daily bitumen production volumes covenant in the fourth quarter of 2014. The decrease in working capital during the first quarter of 2014 relative to the other quarters in 2014 is due to the issuance of the Initial Notes and warrants for net proceeds totaling $143.9 million.

Cash capital expenditures (recovery)

Cash capital expenditures for 2015 were minimal as the Company suspended operations at both facilities and deferred further advancement of Saleski Phase 1. During the second quarter of 2015, Laricina recorded a cash capital recovery for the claim filed with the Government of Alberta in relation to the reimbursement of costs for the Conn Creek and Poplar Creek areas affected by the UDSR and the refundable portion of the 2010 and 2011 Alberta SR&ED claims.

Capital expenditures during 2014 primarily consisted of the advancement of engineering and purchases of long-lead equipment for Saleski Phase 1 before development activity was suspended in the first quarter of 2015. Remaining capital expenditures in 2014 were for the conversion of well-pairs to production at Germain.

Capital investment activities were previously described in the Capital Investment section of this MD&A.

Bitumen blend sales revenue

Laricina suspended operations at the Germain CDP and at the Saleski pilot during 2015. As a result, bitumen blend sales revenue began declining due to the decrease in production in the first quarter of 2015 coinciding with the suspension of the Germain CDP and then in the third quarter of 2015 concurrent with the suspension of the Saleski pilot.

In 2014, bitumen blend sales revenue increased as a result of the Germain CDP coming on production in the first quarter. Throughout 2014, production at the Germain CDP was ramped-up by converting well-pairs to production and the commencement of SC-SAGD in the third quarter. The lower sales revenue in the fourth quarter of 2014 was a result of a decline in the average realized sales prices due to a decrease in the underlying benchmark pricing. The remaining change was a result of the experimental nature of the Saleski pilot and the alternating cycles between steam injection and bitumen production.

Finance income

Finance income began decreasing in the third quarter of 2014 as a result of a decrease in the funds held on deposit. There was an increase during the second quarter of 2015 related to the accrued interest associated with the UDSR claim. Finance income increased in the second quarter of 2014 due to interest earned on the proceeds from the issuance of the Initial Notes and warrants late in the first quarter of 2014.

Other income

Fluctuations in other income reflect the variation in third-party usage of the Company's camps and road and its impact on the fees charged.

Loss and comprehensive loss

Higher losses in the last two quarters of 2015 and the fourth quarter of 2014 is mainly the result of the Company having recognized impairment losses of $198.2 million in the fourth quarter of 2015, $330.4 million in the third quarter of 2015 and $195.2 million in the fourth quarter of 2014. In the third quarter of 2015, Laricina also recognized a loss on substantial modification of the Notes under the Settlement Agreement and increased finance expense associated with accretion of the Amended Notes. Beginning in the first quarter of 2015, the following activities were initiated which served to increase the loss: deferred income tax recoveries were no longer recognized, additional costs were incurred relative to reorganization activities and interest expense associated with the Notes increased due to a rate increase of 200 basis points. Beginning in the first quarter of 2014, the loss increased as a result of the recognition of operating expenses and depreciation associated with the start-up of the Germain CDP. These costs subsequently declined and offset the aforementioned increases following the suspension of operations at the Germain CDP and the Saleski pilot in the first and third quarters of 2015, respectively.

Liquidity and Capital Resources

As at December 31, 2015, Laricina had capital resources of $43.8 million.

Cash, restricted cash and short-term investments	39,681
Non-cash working capital	4,117
Capital resources available	**43,798**

The consolidated financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the year ended December 31, 2015, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current positive cash and short-term investments position of $39.7 million and PIK Note capability, the Company expects to be able to discharge its trade payables, unpaid proven claims, accrued current liabilities, commitments and debt service for the next twelve months. Laricina has developed a scaled-back business plan to enable the Company to continue for the foreseeable future while new financing is sought. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond 2016 that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover and when operations will resume at the Saleski pilot and Germain CDP. Even were that to occur, these facilities are not designed to generate sufficient bitumen blend sales revenue to recover their operating costs. Given these uncertainties and future outlays, Laricina will require additional financing to fund future working capital deficiencies and repayment of the Continuing Notes and PIK Notes in March 2018. As such, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

Cash, restricted cash and short-term investments

The Company's cash is held in a business operating account with a major Canadian bank bearing interest up to the bank's prime rate minus a certain percentage that varies with the average account balance in the month and for which the resultant interest rates ranged from 0.7 percent to 1.1 percent during 2015. In addition, the Company held excess cash in a high-interest savings account and guaranteed investment certificates with interest rates ranging from 0.7 percent to 1.8 percent over the course of 2015. The restricted cash secures the Company's demand credit facility with a major Canadian commercial bank and bears interest at the bank's prime rate minus 1.9 percent.

Continuing Notes

On November 30, 2015, a payment of $14.4 million was made to the Noteholder and $60.0 million of the Notes were converted to 500.0 million preferred shares which were then immediately converted into 500.0 million common shares. The principal amount outstanding at December 31, 2015 is $33.5 million. The Continuing Notes are carried at their amortized cost on the consolidated statements of financial position. The difference between the amortized cost and principal balance will be recorded as accretion expense over the period until the maturity of the Continuing Notes. The Continuing Notes are governed by the Indenture, as amended by the First Supplemental Indenture, and bear interest at a rate of 13.5 percent per year, of which interest may be paid through the issuance of PIK Notes until the maturity date of such remaining Continuing Notes on March 20, 2018.

Credit facility

Laricina has a demand credit facility of $10.0 million secured by an equivalent cash deposit with a major Canadian bank. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At the date of this report, the Company had letters of credit issued totalling $6.3 million under this credit facility and no amount has been drawn.

The letters of credit are issued to suppliers of utilities to support the development and restart of Saleski and Germain. The letters of credit of $5.7 million, $0.2 million, $0.1 million and $0.3 million are expected to be renewed on July 31, 2016, August 31, 2016, August 31, 2016 and December 5, 2016, respectively.

When the Initial Notes were issued on March 20, 2014, Laricina entered into an inter-creditor agreement where an event of default on the Notes constituted a cross default on the Company's demand credit facility. As of the date of this MD&A, all events of default under the inter-creditor agreement that occurred on or prior to November 30, 2015 have been waived and no events of default have occurred subsequent.

Contractual obligations

At April 12, 2016, the Company had the following cash-settled contractual obligations:

	2016	2017	2018	2019	2020	Thereafter	Total
Interest payments on notes(1)(3)	3,675	5,473	1,803	-	-	-	10,951
Repayment of notes(2)(3)	-	-	34,898	-	-	-	34,898
Operating leases	429	239	21	-	-	-	689
Other contractual obligations	2,479	1,147	1,159	1,361	2,125	18,254	26,525
Total contractual obligations	**6,583**	**6,859**	**37,881**	**1,361**	**2,125**	**18,254**	**73,063**

(1) At the Company's option, the interest on the Continuing Notes and the PIK Notes may be paid in cash or by way of further PIK Notes.

(2) The Company is obligated to reimburse the reasonable expenses of the Noteholder and these amounts will be added to the repayment of PIK Notes in 2018.

(3) The repayment of notes in 2018 may be lower than the $33.5 million of Continuing Notes and $1.4 million of PIK Notes if the net proceeds of certain Anticipated Receivables or additional payments based on the outcome of certain events contemplated in the Settlement Agreement are applied. If the notes principal changes before the maturity date, this will affect the interest payable.

Other contractual obligations include electricity purchases, natural gas purchases, camp buy-out options, employee retention programs and other obligations.

2016 Outlook

The Company, having successfully moved beyond its restructuring process and now under the direction of a new board, is reviewing Laricina's current scaled-back business plan and considering alternatives to leverage the Company's long-term assets with the view of capitalizing on emerging opportunities. The review process will consider the costs of maintaining the assets of the Company, opportunities for other investments and alternatives for raising additional capital, the positioning of future development and the liquidity requirements to repay the debt upon maturity in March 2018.

The Company will continue to manage the suspension of its assets with a small complement of employees and third-party consultants with a view to preserving future value. A re-start of operations will be dependent on capital markets become receptive to junior oil sands investment and funding sources, inclusive of potential joint ventures and additional equity investment. Given the current volatile market conditions, federal and provincial taxation changes, anticipated climate change legislation, other legislative and regulatory changes affecting the energy industry, the Company will consider the potential requirements for a protracted period of suspension.

Outstanding Share Data

At April 12, 2016, share capital consisted of the following:

(thousands)	
Common shares	576,219
Stock options	725
Performance share units	210
Warrants	28,804
Total	**605,958**

Each stock option, PSU and warrant requires the Company, upon exercise and receipt of payment of the consideration, to issue one common share.

As part of the completion of the Settlement Transaction, the warrants issued in March 2014 have been cancelled and replaced with the Consent Fee Warrants as described in note 1 and note 14 of the Company's audited consolidated financial statements as at and for the year ended December 31, 2015.

Non-IFRS Financial Measures

This MD&A contains references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other entities.

Net operating revenue is a non-IFRS measure which the Company uses to analyze the net amount received from bitumen blend sales after the payment of Crown royalties. Net operating revenue is calculated as bitumen blend sales revenue less royalties.

Critical Accounting Estimates and Judgments and Policies

The Company's audited consolidated financial statements for the years ended December 31, 2015 and 2014 have been prepared in accordance with IFRS applicable to the preparation of financial statements. Laricina's significant estimates and judgments and accounting policies are described in note 2 and note 3, respectively, of the Company's audited consolidated financial statements as at and for the year ended December 31, 2015. The Company has consistently applied the same estimates, judgment and policies throughout all periods presented, except for the estimates, judgment and policies used as at August 5, 2015 to measure and account for the fair value of the Amended Notes, Note Conversion feature and the Consent Fee Warrants issued.

Risk Management

Laricina's operational and financial success could be affected by a variety of risks related to the oil and natural gas industry, many of which are not in the Company's control. Accordingly, the Company's success depends on the ability to secure additional financing, successful execution of its construction activities and future development. Current risk factors influencing the Company include, but are not limited to, the following:

Going concern

As previously described, the ability of the Company to continue as a going concern requires financing or other alternatives to advance commercial operations at Saleski and Germain, pursue other investment opportunities and to repay the Continuing Notes and PIK Notes in March 2018 while funding working capital in the interim. The significant decline in oil prices has, among other things, severely constrained Laricina's ability to raise additional capital and there can be no assurance that the Company will be able to obtain additional capital.

Uncertainty of reserves and resources

The substantial majority of the Company's total reserves, contingent resources and prospective resources are undeveloped. These reserves and contingent resources may not ultimately be developed or produced, either because it may not be commercially viable to do so or for other reasons. Furthermore, not all of the Company's undeveloped reserves or contingent resources may be ultimately produced at the time periods Laricina has planned, at the costs Laricina has budgeted or at all. Undeveloped reserves and are subject to greater uncertainty than reserves classified as developed.

Estimating oil sands reserves and resources is inherently uncertain and no assurance can be given that the currently estimated level of reserves and resources or recovery of bitumen will be realized. Reservoir engineering is a partially subjective process of estimating and is highly dependent on the accuracy of the assumptions on which it is based. Assumptions such as historical production from similar properties, the effects of regulation by government agencies, estimated future capital and operating costs, assumptions about future commodity prices and exchange rates, abandonment costs, environmental liabilities, royalty regimes, marketability of production and potential enhanced recovery techniques are used in estimates of economically recoverable bitumen and actual results may vary considerably. Estimates of the economically recoverable bitumen and the classification of such reserves and resources are based on probability of recovery, and the estimates of future net revenue expected from those reserves, prepared by different engineers or by the same engineers at different times, may vary substantially.

Capital requirements and financial resources

The Company anticipates making substantial capital expenditures to fund its share of the costs to develop its oil sands projects and the future acquisition, exploration, development and production of its oil sands resources and reserves. The sources of funding potentially available to the Company include proceeds from equity offerings, the incurrence of additional indebtedness, joint arrangements or the sale of assets. There can be no assurance that debt or equity financing, joint arrangements or cash, if any, that may be generated by future operations will be available or sufficient to meet these capital requirements or for other corporate purposes or, if debt or equity financing or joint arrangements are available, that it will be available on terms acceptable to the Company. The inability to access sufficient capital to fund its capital requirements and operations could result in, among other things, the inability of the Company to conduct exploration and development programs on its assets. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Regulatory

Development of Laricina's oil sands properties depends 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, increased costs or in projects not proceeding.

Government regulations may change from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations could affect the timing of Laricina's project development plans or increase costs, which may make future projects uneconomic.

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

Local communities are active in reviewing and participating in the regulatory process. Statements of concern, should they occur, could impact the timing and risks of regulatory approvals.

The Germain CDP and Saleski pilot projects were both suspended in 2015. Laricina presented suspension plans for both projects to the Alberta Energy Regulator and made subsequent applications to reduce the reporting requirements framed under the *Environmental Protection and Enhancement Act* approvals. Laricina is tracking the remaining regulatory requirements to ensure it remains compliant.

Alberta's Land-use Framework, which has been implemented under the *Alberta Land Stewardship Act* (**ALSA**), outlines the Government of Alberta's approach to managing land and natural resources to meet long-term economic, environmental and social goals. The ALSA considers the amendment or removal of previously issued items including regulatory permits, licenses, approvals or authorizations in order to achieve an objective or policy resulting from the implementation of a regional plan. The Government of Alberta's first of seven regional plans is the Lower Athabasca Regional Plan (**LARP**) which came into effect September 1, 2012. The LARP's intent is to identify and set resource and environmental management outcomes for air, land, water and biodiversity and guide future decisions while considering the social and economic impacts. The LARP and the proposed conservation areas do not directly affect any of Laricina's current oil sands leases. The proposed legislation's full impact on the Company cannot be determined until the various regional environmental management outcomes are established. Currently the Government of Alberta is developing the South Saskatchewan Regional Plan, the second of the seven regional plans. The Government of Alberta has not indicated when the Lower Peace Regional Plan will be initiated. This plan may affect Laricina's oil sands leases.

In 2011, the Government of Alberta issued "A Woodland Caribou Policy for Alberta" which focuses on achieving naturally sustaining woodland caribou populations through management of the land base as well as maintaining and restoring habitat. The Government of Alberta has undertaken caribou range action planning to fulfill provincial obligations to be met in 2017 in response to the Federal Government's "Recovery Strategy for Woodland Caribou, Boreal Population in Canada". The impact of the range plans on Laricina's mineral lease development is undeterminable at this time.

Estimates of the Company's abandonment and reclamation costs will be a function of regulatory requirements existing at the time that the estimates are made, which are subject to change in the future. A breach of such approvals, laws or regulations may result in the issuance of remedial orders, the suspension of approvals, or the imposition of fines and penalties. In addition, the value of the salvaged equipment may be more or less than the abandonment and reclamation costs. Consequently, the estimates may or may not accurately reflect these future costs. In addition, in the future the Company or the operator of the Company's projects may determine it prudent, or be required by applicable laws or regulations, to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs, which could result in a material increase in the cost of the Company's projects.

Environmental

Like all natural resource development, oil sands development has an impact on the environment and is subject to environmental regulation. Environmental legislation and regulations provide for, among other things, restrictions or prohibitions on spills or emissions of various substances. They also require 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 and regulations will not have an adverse effect on the Company's financial condition. Laricina continues to track and satisfy environmental obligations under the various project, exploration and infrastructure approvals still active with the various regulatory bodies.

On November 22, 2015, the Alberta government released its Climate Leadership Plan. Key considerations in the plan for Laricina include: a legislated emissions limit on the oil sands of a maximum of 100,000 tonnes in any year; an economy wide $20 per tonne carbon price that is effective on January 1, 2017 and moves to $30 per tonne on January 1, 2018; a distinction for large emitters over the 100,000 tonne threshold at $30 per tonne; a frame work for technology investment; and the next steps to translate the climate leadership plan into policy. The government has established a Deputy Minister Committee to implement its climate leadership policy and is expecting to have the full policy content and enabling legislation drafted in the fall of 2016. The government has engaged industry in the process. The government has recently initiated work on the policy development and the detail in the policy is needed to further define risks.

The Germain CDP and Saleski pilot are mandated under the *Canadian Environmental Protection Act* to report releases, disposals and transfers of substances to the National Pollutant Release Inventory (**NPRI**). The Saleski pilot has been reporting to the NPRI since 2011 and the Germain CDP submitted its first report on June 1, 2014. At this time, there is no additional financial liability created by the federal regulations but there is an agreement in principle that there will be harmonization with provincial regulations and a suite of flexible compliance mechanisms designed to ensure that the sector's competitiveness is maintained.

Laricina is obligated to provide funding for the joint oil sands monitoring (**JOSM**) initiative that is allocated among companies according to applications under review, approvals, overall production and operational capacities related to oil sands. Laricina has been required to provide funding since 2013 based on the Germain CDP and Saleski Phase 1 projects. The Saleski pilot is exempt from incurring JOSM fees.

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. Other unconventional oil developments and other energy investments compete for available capital. There can be no assurance concerning the impact of competition on the timing, availability or price of capital. Laricina’s success will depend on its ability to enter into joint arrangements with other oil sands development companies, enter into beneficial partnerships with other industry participants, attract individuals with oil sands expertise and attract additional capital.

Royalty regime

On January 1, 2009, the New Royalty Framework and Transitional Royalty Program announced by the Government of Alberta in 2007 became effective. On March 11, 2010, the Government of Alberta announced the outcome of its Alberta Competiveness Review. The review did not affect bitumen production as its focus was on conventional oil and natural gas production. On January 29, 2016, the Government of Alberta released the results of its royalty review conducted over 2015. At this time, there was no change to the oil sands royalty framework; however, the report of the Royalty Review Advisory Panel made recommendations to improve oil sands processes and transparency of oil sands costs and recommended the Oil Sands Allowed Costs Regulation be updated in consultation with the oil sands industry. Laricina’s net operating revenue is directly affected by the applicable royalty regime. The economic benefit of future capital expenditures for any project, in many cases, depends 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

Laricina's success depends on its ability to find, acquire, develop and produce oil at an economically recoverable cost. Oil sands exploration, by definition, involves risk. Laricina is designing and testing innovative, improved recovery and cost-reduction strategies for *in situ* projects. There is no assurance that the Company's development strategy will achieve positive financial results.

Infrastructure

The future development of the Company’s commercial projects will depend on certain infrastructure, including roads and camps, pipelines for transportation of diluent and bitumen blend, natural gas fuel pipelines and electricity transmission systems. Delays or restrictions in necessary infrastructure may influence the timing and scale of operations and negatively impact financial results.

Insurance

The exploration for and development of oil sands properties may expose the Company to liability for pollution, well blow-outs, property damage, personal injury or other hazards. Although Laricina obtains insurance to protect against such risks, there are limitations on insurance coverage that may not be sufficient to cover the full extent of such costs, or a particular risk may not be insurable in all circumstances, or the Company may elect not to obtain insurance in certain circumstances. 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 natural gas companies and oil and natural gas assets are typically based on engineering and economic assessments. These include assumptions regarding recoverability and marketability of oil and natural gas, future commodity prices, future 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 those of 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 US dollar market price. Fluctuations in exchange rates between the US dollar and Canadian dollar 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, diluent prices and heavy oil differentials fluctuate significantly in response to regional, national and global supply and demand factors that are beyond Laricina's control. The Company's future financial results depend on future demand and on the price movement of the aforementioned commodities, including any negative price effects arising from increased bitumen supplies from competitors.

Any prolonged period of low crude oil and/or high natural gas prices could result in a decision by the Company to further: (i) suspend or slow development activities; (ii) suspend or slow the construction or expansion of bitumen recovery projects; or (iii) suspend or reduce production levels. Any of these actions could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Operating costs

The cost of natural gas is a significant component of the cost of bitumen production. Laricina's future earnings could be reduced should natural gas prices increase. Higher costs of diluent and hydrocarbon solvents could also reduce future earnings. Any carbon-related charges imposed by government could reduce Laricina's future earnings.

Lack of liquidity

Laricina's common shares are privately held. A future public offering might not lead to an active trading market of its shares or, if developed, one that would be sustainable. There can be no assurance that a future offering 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

Laricina's continued success depends on the performance of key employees. Failure to retain current key employees with the necessary skills could have an adverse effect on the Company's development, growth and profitability.

Seasonality

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

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 operation partners and other parties. Should any counterparties fail to meet their contractual obligations it could affect operations or have a material adverse effect on the Company's financial position or cash flows.

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 taxation authorities in a way that would have an impact on current and future income taxes payable.

On June 29, 2015, the province of Alberta increased the Alberta corporate income tax rate from 10.0 percent to 12.0 percent effective July 1, 2015. The impact of this measure will depend on the Company's future profitability.

Advisory on Forward-Looking Statements

This MD&A and annual report contain certain forward-looking statements relating to, without limitation, the Company's business and its intentions, plans, expectations, anticipated financial performance or condition including statements relating to the Company's expectations on its ability to discharge liabilities and continue as a going concern in the Liquidity and Capital Resources section of this MD&A. Forward-looking statements may include, but are not limited to, statements concerning estimates of contingent, prospective and recoverable resources; probable and possible reserves; 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", "forecast", "potential" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could", "should" or "will" be taken or occur in the future. The reader is 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, general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur including those specific factors outlined in the Liquidity and Capital Resources section of this MD&A relating to the Company's ability to continue as a going concern. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of April 12, 2016, 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. 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 those outlined in the Risk Management section of this MD&A and 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 in this MD&A and annual report, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. 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 in this MD&A and annual report are expressly qualified by this advisory and disclaimer.

Independent Auditors' Report

To the Shareholders of Laricina Energy Ltd.

We have audited the accompanying consolidated financial statements of Laricina Energy Ltd. ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements. The current period loss, liquidity constraints affecting the Company's ability to make future debt repayments, and the curtailment of operations in the current year, combined with other matters set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "KPMG"

Chartered Professional Accountants

Calgary, Canada
April 12, 2016

Consolidated Statements of Financial Position

As at December 31 *(thousands of Canadian dollars)*	Note	**2015**	2014
Assets			
Current assets			
Cash		**29,631**	113,902
Restricted cash	13	**10,000**	15,000
Short-term investments		**50**	51,000
Trade and other receivables		**8,196**	8,299
Prepaid expenses and deposits	4	**1,440**	1,127
Inventories	5	**-**	5,300
		49,317	194,628
Non-current assets			
Exploration and evaluation assets	6,7	**355,717**	870,700
Property, plant and equipment	8	**71,828**	76,832
Intangible assets	6,9	**10,476**	35,765
		438,021	983,297
Total assets		**487,338**	1,177,925
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**5,519**	18,638
Senior secured notes and payment-in-kind notes	1,12	**-**	172,091
		5,519	190,729
Non-current liabilities			
Continuing notes and payment-in-kind notes	1,12	**21,840**	-
Consent fee warrants	14	**2,135**	-
Site restoration provision	10	**48,148**	45,755
Total liabilities		**77,642**	236,484
Shareholders' equity			
Share capital	14	**1,411,835**	1,342,679
Contributed surplus		**172,666**	57,926
Deficit		**(1,174,805)**	(459,164)
Total shareholders' equity		**409,696**	941,441
Total liabilities and shareholders' equity		**487,338**	1,177,925

The accompanying notes are an integral part of these consolidated financial statements.
CCAA proceedings (note 1) and going concern basis of presentation (note 2)
Contractual obligations (note 22)
Subsequent events (notes 1, 14, 20)

On behalf of the Board:

(signed) "Ian D. Bruce"

Ian D. Bruce
Director

(signed) "Mustafa Humayun"

Mustafa Humayun
Director

Consolidated Statements of Comprehensive Loss

For the years ended December 31 *(thousands of Canadian dollars)*	Note	**2015**	2014
Revenue			
Bitumen blend sales		**4,530**	24,072
Royalties		**(48)**	(888)
		4,482	23,184
Other income		**8,661**	13,959
		13,143	37,143
Expenses			
Transportation and blending		**3,375**	12,308
Operating	17,18	**25,465**	68,786
Pre-exploration		**143**	211
General and administrative	18,19,20	**22,439**	34,329
Depreciation and amortization	7,8,9	**17,017**	32,402
Impairment loss	6	**528,603**	195,211
		597,042	343,247
Loss from operating activities		**(583,899)**	(306,104)
Finance income		**4,073**	2,935
Finance expense	15	**(6,732)**	(46,024)
Loss on substantial modification of notes	12	**(118,353)**	-
Net finance expense		**(121,012)**	(43,089)
Reorganization expense	4	**(10,730)**	-
Loss before income tax		**(715,641)**	(349,193)
Deferred income tax expense	11	**-**	10,673
Total loss and comprehensive loss		**(715,641)**	(359,866)
Loss per common share	16		
Basic		**$ 6.34**	$ 5.21
Diluted		**$ 6.34**	$ 5.21

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

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Note	**Share capital**	**Contributed surplus**	**Deficit**	**Total equity**
Balance as at December 31, 2013		1,337,048	38,201	(99,298)	1,275,951
Loss and comprehensive loss		-	-	(359,866)	(359,866)
Share-based payments		-	11,014	-	11,014
Warrants issued		-	14,249	-	14,249
Performance share units exercised		2,801	(2,800)	-	1
Replacement options exercised		2,830	(2,738)	-	92
Balance as at December 31, 2014		1,342,679	57,926	(459,164)	941,441
Loss and comprehensive loss		-	-	(715,641)	(715,641)
Shares issued, net of share issuance costs	14	60,468	-	-	60,468
Share-based net recoveries		-	(2,488)	-	(2,488)
Performance share units exercised	14	8,688	(8,684)	-	4
Equity component of notes	12	-	125,912	-	125,912
Balance as at December 31, 2015		**1,411,835**	**172,666**	**(1,174,805)**	**409,696**

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

Consolidated Statements of Cash Flows

For the years ended December 31

(thousands of Canadian dollars)	Note	**2015**	2014
Cash flows from operating activities			
Loss and comprehensive loss		**(715,641)**	(359,866)
Adjustments for:			
Depreciation and amortization	7,8,9	**17,017**	32,402
Equity-settled share-based payments (recovery)	14	**(1,173)**	9,941
Impairment loss	6	**528,603**	195,211
Loss on substantial modification of notes	12	**118,353**	-
Accretion of site restoration obligation	10,15	**1,029**	1,983
Non-cash finance expense (recovery)	12,15	**(1,992)**	18,748
Non-cash reimbursable costs to Noteholder	12	**34**	13,906
Provision for the acceleration payment	12,15	**(9,741)**	9,741
Deferred income tax expense	11	**-**	10,673
		(63,511)	(67,170)
Net change in non-cash operating working capital	21	**(2,416)**	(6,362)
Net cash used in operating activities		**(65,927)**	(73,532)
Cash flows from investing activities			
Property, plant and equipment and exploration and evaluation			
Expenditures	7,8	**(4,262)**	(45,793)
Recovery	7	**8,364**	-
Proceeds from the disposal of exploration and evaluation assets	7	**-**	961
Change in restricted cash	13	**5,000**	-
Change in short-term investments		**50,950**	(7,000)
Abandonment deposits		**-**	924
Net change in non-cash investing working capital	21	**(10,028)**	(1,984)
Net cash from (used in) investing activities		**50,024**	(52,892)
Cash flows from financing activities			
Repayment of notes	1,12	**(68,856)**	-
Proceeds from the issuance of common shares, net of share issuance costs	1,12,14	**473**	93
Proceeds from the issuance of initial notes and warrants		**-**	143,854
Finance lease obligation		**-**	(1,687)
Net change in non-cash financing working capital	21	**15**	-
Net cash from (used in) financing activities		**(68,368)**	142,260
Net increase (decrease) in cash		**(84,271)**	15,836
Cash, beginning of year		**113,902**	98,066
Cash, end of year		**29,631**	113,902

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

Notes to the Consolidated Financial Statements

(tabular amounts in thousands of Canadian dollars except as otherwise noted)

1. Corporate Information

Laricina Energy Ltd. (**Laricina** or the **Company**) was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). Laricina is a non-public, Calgary-based responsible energy company with the goal to create value by developing Canada's *in situ* hydrocarbon resources using innovative technologies. The Company has a diverse portfolio of oil sands assets at varied stages of development. Two core development areas have been identified, Germain and Saleski. The Company has an undivided interest in Germain and all other of its oil sands assets except for Saleski where the Company's working interest is 60.0 percent.

The Company and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., filed for and were granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) pursuant to an order of the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the **Court**) dated March 30, 2015 with effect as of March 26, 2015 (the **Initial Order**). The Company was recapitalized on November 30, 2015 pursuant to a settlement arrangement (the **Settlement Agreement**). Laricina continued to be protected from creditors at December 31, 2015 and exited from CCAA protection effective February 1, 2016. The CCAA status and the Settlement Agreement are further described below.

In the first quarter of 2015, the Company deferred the further development of Saleski Phase 1 and suspended operations at the Germain commercial demonstration project (**CDP**). In the third quarter of 2015, Laricina also suspended operations at the Saleski pilot. Concurrent with these events, significant staff and consulting services reductions occurred.

The Company's current focus is on preserving the integrity and value of the base assets and exploring alternatives to potentially resume development of its oil sands properties or the opportunities to engage in other activities.

CCAA status and the Settlement Agreement

At December 31, 2014, Laricina did not meet the minimum average daily bitumen production volume covenant for the fourth quarter of 2014 as set out in the indenture dated March 20, 2014 (the **Indenture**) governing the $150.0 million of 11.5 percent senior secured notes (the **Initial Notes**) issued thereunder, which caused such notes and payment-in-kind notes (the **PIK Notes**), also issued under that Indenture in lieu of cash interest payments (collectively the **Notes**), to become payable on demand at the option of the sole lender (the **Noteholder**). This default and the resulting right to demand payment required the Notes to be reclassified to current liabilities at December 31, 2014. The reclassification of the Notes to current liabilities then resulted in a default of the minimum working capital covenant set out in the Indenture. For all fiscal quarters subsequent to December 31, 2014 and including the quarter ended September 30, 2015, the Company did not meet the minimum average daily bitumen production volume and continued to be in breach of the minimum working capital covenant. All defaults and events of default were waived by the Noteholder on November 30, 2015 in accordance with the terms of the Settlement Agreement.

On March 16, 2015, the Noteholder issued an acceleration notice and demand for payment of all the outstanding indebtedness under the Notes or otherwise, including interest and reasonable expenses owing to the Noteholder based upon the outstanding defaults. The Noteholder issued a notice of intention to enforce security against the assets of the Company with its demand for payment. The Noteholder also initiated an application with the Court seeking to put Laricina into receivership and have a receiver sell Laricina's assets. This application was subsequently adjourned indefinitely by the Court and was later withdrawn by the Noteholder on December 18, 2015.

As a result of these actions by the Noteholder, the Company and its wholly owned subsidiaries filed for and were granted creditor protection under the CCAA pursuant to the Initial Order. The CCAA is a Canadian insolvency statute which stays creditors and others from enforcing rights against an insolvent party, such as Laricina, and affords that party the opportunity to restructure its financial affairs. PricewaterhouseCoopers Inc. was appointed by the Court as the monitor (the **Monitor**) to provide oversight of the Company and was responsible for reviewing Laricina's ongoing operations, assisting the Company with the development and filing of a restructuring plan under the CCAA, liaising with creditors and other stakeholders and reporting to the Court.

On April 1, 2015, the Company made a payment to the Noteholder of $20.0 million in accordance with the Initial Order.

On June 28, 2015, Laricina and the Noteholder agreed upon a non-binding term sheet setting out the terms of settlement relating to the repayment of the outstanding indebtedness to the Noteholder. That term sheet resulted in the parties entering into the binding Settlement Agreement on July 20, 2015, and the Court, in the Company's CCAA proceedings, approved that Settlement Agreement on August 5, 2015. The June 28, 2015 non-binding term sheet also led to a hearing on July 22, 2015 to seek approval for a claims process (**Claims Process**), a second cash repayment to the Noteholder and commencement of a marketing process (the **Marketing Process**) designed to solicit a broad range of transaction alternatives.

On July 24, 2015, Laricina paid the second cash payment of $31.4 million to the Noteholder which was applied first to accrued and unpaid interest, then to the reimbursement of reasonable expenses pursuant to the Indenture (see note 4), and finally as a partial repayment of principal outstanding under the Notes.

The Settlement Agreement established the basis for the repayment in full of the Noteholder (a **Note Repayment Transaction**), subject to the results of the Marketing Process. As part of the Settlement Agreement, the Company negotiated two important provisions, namely:

- *Go Shop* – Laricina had the right to market its assets with a view to identifying a transaction or transactions with third parties which would enable it to repay the Notes; and
- *Fiduciary Out* – If Laricina could enter into such a transaction or transactions at any time prior to or on November 30, 2015, where the Notes would be repaid in full no later than January 5, 2016 inclusive of a 3.0 percent premium of the principal amount then outstanding, the Company could terminate the Settlement Agreement and pursue such other transaction and repay the Notes. If this had occurred, the Company would have been required to issue warrants exercisable in the aggregate for the number of common shares that were equivalent to 2.5 percent of the outstanding common shares upon completion of a Note Repayment Transaction (the **Note Repayment Warrants**).

1. Corporate Information (continued)

In the case where repayment of the Notes in full was not achieved, the Settlement Agreement provided for the recapitalization of the Company (the **Settlement Transaction**) (see note 12). A third important provision negotiated by the Company in relation to shareholder participation then applied and is described further below.

The Settlement Transaction set out the substantial repayment of the Notes and reasonable expenses owing to the Noteholder through a combination of:

- existing cash and upon receipt of certain receivables (**Anticipated Receivables**);
- proceeds from any potential transactions resulting from the Marketing Process;
- proceeds of a *pro rata* equity private placement (the **Offering**) to Laricina's shareholders (described further below); and
- approximately $30.0 million of the Notes continuing (the **Continuing Notes**)

with any remaining Notes principal being converted to common shares by the Noteholder (the **Note Conversion**), subject to the terms of the Settlement Agreement whereby the Noteholder, together with its affiliates, may not hold in excess of 89.0 percent of the common shares of Laricina on a fully diluted basis. If upon conversion the Noteholder and its affiliates would hold more than 89.0 percent of the equity of Laricina on a fully diluted basis, the portion of the Notes to be converted that would result in equity holdings in excess of that percentage would remain outstanding post-closing and be added to the Continuing Notes. The Offering and the Note Conversion were to be conducted at the same price of $0.12 per common share. The Offering allowed shareholders to participate in the restructuring of the Company and to protect their *pro rata* equity interests. Furthermore, shareholders had an opportunity to subscribe for additional shares that were not subscribed for by other shareholders.

On August 20, 2015 and on October 1, 2015, the Company made payments to the Noteholder of $1.2 million and $1.9 million, respectively, in accordance with the terms of the Settlement Agreement wherein certain insurance proceeds were defined as Anticipated Receivables and were required to be remitted within two business days of receipt. All amounts were applied as a reduction to the outstanding Amended Notes.

On November 30, 2015, proceeds of $0.7 million were received from the Offering and 6.0 million common shares were issued.

On November 30, 2015, the Settlement Transaction was completed with principal terms as follows:

- A payment of $14.4 million was made to the Noteholder from cash on hand and the proceeds of the Offering with $10.5 million applied to the principal outstanding and the residual $3.9 million applied to interest owing;
- $60.0 million of the Notes were converted to 500.0 million common shares at a price of $0.12 per common share issued to the Noteholder, such conversion amount being restricted at the aforementioned 89.0 percent ownership;
- $44.1 million of the principal amount of the Continuing Notes remained outstanding and continues to be governed by the Indenture which was amended upon completion of the Settlement Transaction (the **First Supplemental Indenture**) and bears an interest rate of 13.5 percent per year, of which interest will be

paid through the issuance of PIK Notes, which also bear an interest rate of 13.5 percent per year, until the maturity date of such Continuing Notes on March 20, 2018; and

- The Noteholder was issued 28.8 million warrants (**Consent Fee Warrants**) which vested immediately upon issue and has an exercise price of $0.25 per warrant and an expiry date of March 20, 2018. The 3.8 million warrants issued in March 2014 and held by the Noteholder were surrendered and cancelled (see note 14).

As a result of the demand for repayment of the Notes by the Noteholder on March 16, 2015, an acceleration payment (**Acceleration Payment**) amount equivalent to 6.0 percent of the principal amount of the Notes then outstanding became immediately payable. A provision of $9.7 million was recorded in accrued liabilities as of December 31, 2014 for the Acceleration Payment associated with the Notes. Upon conclusion of the Settlement Transaction on November 30, 2015 and in accordance with the terms of the Settlement Agreement, the Noteholder waived all defaults and events of default and released the Company from the $9.7 million Acceleration Payment obligation. As a result, the Continuing Notes were reclassified to long-term liabilities at December 31, 2015 (see notes 12 and 15).

On December 10, 2015, a payment of $10.6 million arising from the proceeds from the Government of Alberta related to the Company's UDSR claims, as described in note 7 of these notes to the consolidated financial statements, was made to the Noteholder and applied as a reduction to the outstanding Continuing Notes. Under the Settlement Agreement, these proceeds were considered Anticipated Receivables and were required to be remitted.

On December 18, 2015, the Company obtained a further order from the Court that extended creditor protection and the stay of proceedings against the Company and its subsidiaries under the CCAA until and including February 1, 2016 and approved the payment of proven claims under the Claims Process without compromise to the unsecured creditors. The Court also ordered the receivership application of the Noteholder to appoint a receiver over the Company filed on March 30, 2015 withdrawn.

Laricina was granted a final court order from the Court on January 28, 2016 exiting from the protection under the CCAA and concluding the stay of proceedings against the Company and its subsidiaries, effective upon the filing of the Monitor's certificate, which occurred on February 1, 2016. The Company has paid in full all accounts in respect of its CCAA proceedings. At the time of the final court order, Laricina was required to set aside a reserve of $1.8 million against which the payment of the remaining unpaid proven claims and an outstanding disputed claim will be drawn. To the extent that any proceedings regarding claims by or against Laricina are ongoing, these will continue on the timetables set by the Court or the parties until they are concluded.

Pursuant to the terms of the Settlement Agreement, the Board of Directors of Laricina was reconstituted on February 5, 2016. By virtue of the Noteholder and its affiliates' ownership interest in the equity of Laricina, the Noteholder was entitled to nominate three of the five directors. The Company, under the new Board, is reviewing Laricina's business plan and changes to the business plan and/or management are possible.

2. Basis of Preparation

Statement of compliance

These audited consolidated financial statements are prepared and reported in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

These consolidated financial statements were approved for release to shareholders by the Board of Directors on April 12, 2016.

Basis of presentation

The consolidated financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. If this assumption were not appropriate, adjustments to these financial statements may be necessary.

For the year ended December 31, 2015, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current positive cash and short-term investments position of $39.7 million and PIK Note capability, the Company expects to be able to discharge its trade payables, unpaid proven claims, accrued current liabilities, commitments and debt service for the next twelve months. Laricina has developed a scaled-back business plan to enable the Company to continue for the foreseeable future while new financing is sought. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond 2016 that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover and when operations will resume at the Saleski pilot and Germain CDP. Even were that to occur, these facilities are not designed to generate sufficient bitumen blend sales revenue to recover their operating costs. Given these uncertainties and future outlays, Laricina will require additional financing to fund future working capital deficiencies and repayment of the Continuing Notes and PIK Notes in March 2018. As such, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

Basis of consolidation

The consolidated financial statements of the Company comprise Laricina Energy Ltd. and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc. Control exists when a company possesses power over an entity, has exposure to variable returns from its involvement with the entity, and has the ability to use power over the entity to affect its returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date it ceases. All intercompany transactions and balances are eliminated on consolidation.

Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the investor. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangements. Joint operations require a company to recognize its share of assets, liabilities, revenue and expenses. Some of the Company's oil sands activities involve joint operations. The consolidated financial statements include the Company's share of these joint operations and the Company's share of the respective revenues and related costs.

Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities which are measured at fair value. The methods used to measure fair value are discussed in note 3.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, the Company's functional currency.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates and judgments are based on management's best understanding of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates and judgments. Significant estimates and judgments used in the preparation of the consolidated financial statements include, but are not limited to, the valuation of exploration and evaluation (**E&E**) assets (note 7), property, plant and equipment (**PP&E**) (note 8), intangible assets (note 9), site restoration provisions (note 10), deferred income tax assets (note 11), components of the Settlement Transaction and Continuing Notes (note 12), and share-based payments and the Consent Fee Warrants (note 14).

<u>Asset valuation</u>
The recoverability of E&E assets requires judgement in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined and when technical feasibility and commercial viability have been reached. Estimates and assumptions may change as new information becomes available.

The amounts recorded for depreciation of E&E assets, PP&E assets and intangible assets are based on estimates of useful life. Estimates and underlying assumptions are reviewed on an ongoing basis, at least annually. Revisions to accounting estimates are recognized in the year in which the estimates are revised.

IFRS requires that the Company's oil sands assets be aggregated into cash-generating units (**CGU**s), which are classified based on their ability to generate independent cash inflows which are used to assess assets for impairment. The determination of the Company's CGUs is subject to management's judgment. Estimates of reserves and resources and future costs are used to assess impairment and are subject to measurement uncertainty. The estimation of reserves and resources is a subjective process and is based on forecasts which are subject to uncertainties such as geological and engineering data, projected future rates of production, commodity pricing and the timing of future capital expenditures. Revisions to reserve and resource estimates could occur from the results of future drilling, testing, production levels and economics of recovery.

2. Basis of Preparation (continued)

The decision to transfer assets from E&E assets to PP&E is based on management's assessment of technical feasibility and commercial viability, which is subject to judgment.

Site restoration provision

The site restoration provision is based on current legal and constructive requirements, technology, estimated costs and expected timing for remediation. The obligation is the present value of the estimated cash flows required for an asset's future abandonment. Actual costs can differ from estimated costs because of changes in laws and regulations, discovery and analysis of site conditions, changes in technology and changes in discount rates. Estimating the timing, amount, and value of these retirement costs is subject to judgment.

Tax asset and liability valuation and utilization of tax losses

The determination of deferred income tax assets and liabilities requires interpretation of complex laws and regulations, and deferred income tax assets and liabilities 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.

Deferred income tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome.

Deferred income tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable profits, and the application of tax laws.

Valuation of the Settlement Transaction and Continuing Notes

The fair values of the Amended Notes (as defined in note 12), Note Conversion feature, Continuing Notes, Consent Fee Warrants and Note Repayment Warrants were measured at the present value of the expected payments discounted using a risk adjusted discount rate. The expected payments were determined by considering the possible scenarios of amounts to be paid under each scenario and the probability of each scenario occurring. The expected payments related to the Consent Fee Warrants and Note Repayment Warrants are also dependent on an estimate of the fair value of the Company's share price at the respective measurement date. The estimated timing, amounts and value of these payments are subject to judgment and they may differ from the actual payment.

Share-based payments

Share-based payments are subject to estimation as they are calculated using the Black-Scholes option pricing model, which is based on significant assumptions such as volatility and forfeiture rate.

Consent Fee Warrants

Pursuant to the anti-dilution provisions contained in the warrant certificate, the Consent Fee Warrant exercise price is subject to adjustment and, as such, entitles the Noteholder to a variable number of warrants. The fair value of the Consent Fee Warrants is measured at the end of each reporting period using the Black-Scholes option pricing model which is based on significant assumptions and is dependent on an estimate of the fair value of the Company's share price at the respective measurement date.

3. Summary of Significant Accounting Policies

The accounting policies set out below were applied consistently by the Company and its subsidiaries to all years presented in these consolidated financial statements.

Exploration and evaluation assets

Costs of exploring for and evaluating oil sands properties are initially capitalized and may include costs of lease acquisition, technical services and studies, seismic acquisition, exploration drilling and testing, directly attributable overhead and administration expenses, and the projected costs of retiring the assets but do not include general prospecting or evaluation costs incurred prior to having obtained the legal rights to explore the area, which are expensed as they are incurred.

E&E assets are not depleted or amortized until the earlier of: the asset coming into use as management intended and the determination of technical feasibility and commercial viability of extracting a mineral resource. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when the planned commercial level of proved reserves has been assigned.

E&E assets that are in use as management intended are depreciated and recapitalized as intangible assets until technical feasibility and commercial viability of extracting a mineral resource can be determined. Once this has occurred, the underlying intangible asset is transferred to development and producing (**D&P**) assets and subsequently depleted.

Other E&E assets, including facilities and infrastructure, are depreciated when they are used to support the determination of proved reserves using reservoir data. The depreciation of these assets is recognized in profit or loss.

Property, plant and equipment

PP&E consists of assets which have been transferred from E&E assets to D&P assets, facilities and other equipment, and corporate assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability, and costs of replacing parts of D&P assets are recognized as PP&E only when they increase the future economic benefits embodied in the specific asset to which they are related. Such costs generally represent costs incurred in developing proved or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a project-area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day maintenance of PP&E are recognized in profit or loss as incurred.

Gains and losses on disposal of an E&E asset or PP&E are determined by comparing the proceeds from disposal with the carrying amount of the E&E asset or PP&E and are recognized in profit or loss.

Intangible assets

Intangible assets consist of payments made to third parties to expand the availability of infrastructure for the Company’s future development projects and the recapitalization of the depreciation of specific E&E assets.

3. Summary of Significant Accounting Policies (continued)

Depreciation, depletion and amortization

The net carrying value of E&E assets is depreciated based on useful life which approximates a unit of production basis. E&E assets which are producing bitumen and gathering information about the reservoir to assist in the determination of technical feasibility and commercial viability of extracting mineral resources are recapitalized as intangible assets.

The net carrying value of D&P assets is depleted using the unit-of-production method which uses the ratio of production to the related total proved plus probable reserves, taking into account the future development costs necessary to bring the related reserves into production. The estimate of future development costs is reviewed annually by independent reservoir engineers.

Proved plus probable reserves are estimated using independent reservoir engineering reports and represent the estimated quantity of bitumen which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon:

- a reasonable assessment of the future economics of such production;
- a reasonable expectation that there is a market for all or substantially all of the expected production; and
- evidence that the necessary production, transmission and transportation facilities are available or can reasonably be made available.

Reserves which can be produced economically through application of enhanced recovery techniques are only included in the proved plus probable classification when successful testing by a pilot project, or other reasonable evidence, such as experience of the same techniques on similar reservoirs or reservoir simulation studies, provides support for the engineering analysis on which the project was based.

For facilities and other equipment, depreciation is recognized in profit or loss on a straight-line basis over their estimated useful lives of twenty five years. For corporate assets, depreciation is recognized in profit or loss on a straight-line basis over their estimated useful lives at annual rates of 20.0 to 30.0 percent.

The expected residual value of facilities and other equipment, and corporate assets is evaluated when depreciation commences.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. When significant components of an E&E asset or PP&E have different useful lives, they are accounted for and depreciated as separate items.

Amortization of intangible assets related to infrastructure is recognized in profit or loss on a straight-line basis over the twenty year term of the related contract.

Inventories

Inventories consist of materials, condensate, and bitumen blend that are expected to be realized within twelve months. Materials inventory consists of materials, parts and supplies and is valued at the lower of cost or net realizable value with cost determined using a first-in, first-out basis. Condensate inventory is condensate purchased for bitumen blending and is valued at the lower of cost or net realizable value with cost determined using a weighted-average cost. Bitumen blend inventory is produced bitumen that has been blended with condensate for purposes of transporting the product to market and is valued at the lower of cost or net realizable value with cost determined using a weighted-average cost.

Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the leased asset is accounted for in accordance with the accounting policy applicable to the associated asset.

Minimum lease payments made under finance leases are allocated between finance expense and the reduction of the outstanding liability.

Operating leases are not recognized in the Company’s statements of financial position. Payments made under operating leases are recognized as expenses on a straight-line basis over the lease term.

Impairment

A financial asset is assessed at each reporting date for objective evidence indicating that impairment has occurred, such as one or more events that might have a negative effect on the asset's estimated future cash flows. Trade and other receivables and inventories are tested for impairment on an individual basis with the remaining financial assets assessed in groups that have similar credit risk. An impairment loss of a financial asset is recognized in profit or loss and is calculated as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amounts of the Company’s non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting period for indications of impairment. If there is an indication of impairment, the asset’s recoverable amount is estimated.

E&E assets are allocated to CGUs for purposes of assessing whether or not the assets must be transferred to the D&P category within PP&E and for performing impairment testing when there are indicators of impairment. A review of each exploration project is performed, at least annually, to establish whether significant proved reserves have been assigned by independent reservoir engineers. Upon determination of proved reserves, E&E assets attributable to these reserves are tested for impairment within the associated CGU and then transferred to D&P assets based on the carrying value of costs associated with proved and probable reserves of the underlying assets. For the purposes of impairment testing, assets are grouped into the smallest group of assets that generates independent cash inflows from continuing use, being the CGU. The Company uses the following CGUs for E&E assets: Saleski, Germain, Burnt Lakes and Other. The recoverable amount of the asset or CGU is the greater of its value in use (**VIU**) and its fair value less costs to dispose (**FVLCD**). The Company’s corporate assets do not generate separate cash inflows. Corporate assets are allocated to the CGUs on a pro-rata basis.

3. Summary of Significant Accounting Policies (continued)

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time-value-of-money and the asset's specific risks. VIU is generally calculated using the present value of the future cash flows expected to be derived from the production of proved and probable reserves.

FVLCD is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss and are reversed in subsequent periods if indicators exist such that the impairment has decreased. The reversal of an impairment loss is the lower of the recoverable amount and the carrying value of the asset, net of depreciation, amortization or depletion, as if no previous impairment existed.

The Company assesses the impairment of E&E assets, before and at the moment of reclassification to PP&E, using E&E CGUs. After the reclassification to PP&E on the basis of technical feasibility and commercial viability, D&P CGUs are used for impairment testing.

Site restoration provision

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be reliably estimated and it is probable that payment will be required to settle the obligation. A provision is determined by discounting the expected future cash flows at a rate that reflects the current assessment of the time-value-of-money and the risks specific to the underlying liability. The Company recognizes a provision for site restoration obligations as its activities give rise to dismantling, decommissioning and site disturbance remediation requirements. A provision is made for the estimated cost of site restoration with a corresponding increase to the related E&E asset or PP&E.

The site restoration provision is measured at the present value of management's best estimate of expenditures required to settle the obligation at the reporting date. Subsequent to the initial measurement, the provision is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The unwinding of the discount related to the passage of time is recognized as a finance expense and the changes in the estimated future cash flows are capitalized. Actual site restoration costs are charged against the site restoration obligation when incurred to the extent the estimated expenditures were provided for.

Share-based payment arrangements

The Company applies the fair value method for stock options and performance share units (**PSU**s) granted. Compensation costs are recognized over the vesting period of the award based on the estimated fair value of the stock options or PSUs on the grant date using the Black-Scholes pricing model, with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted over time to reflect the actual number of stock options or PSUs that vest. Upon exercise, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The fair value of the amount payable to employees in respect of share appreciation rights (**SAR**s), which are settled in cash, is recognized as compensation cost over the vesting period with a corresponding increase in accrued liabilities.

Revenue

Revenue from the sale of bitumen is recorded when the significant risks and rewards of product ownership are transferred to the buyer, the sales price can be measured reliably and it is probable that economic benefits will flow to the Company. This is generally met at the time the product is delivered to a sales terminal.

Other income consists of fees charged to third parties for use of Laricina's camp facilities and road, and is recognized at the time of use.

Finance income and finance expense

Finance income is recognized as it accrues using the effective interest rate method. Finance expense consists of amortization of debt issue costs, interest recognized on the Notes, Amended Notes and Continuing Notes, a provision for the Acceleration Payment on the Notes, the changes in fair value upon re-measurement of the Consent Fee Warrants liability, accretion for the site restoration provision, accretion associated with the amortized cost of the Amended Notes and Continuing Notes and interest associated with finance leases.

Income tax

Income tax is comprised of current and deferred income taxes, which are recognized in profit or loss except when they relate to items recognized directly in equity or in other comprehensive income.

The asset and liability method of accounting for income taxes is followed whereby deferred 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. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates that will apply in the years the temporary differences are expected to be recovered or settled. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

Share capital

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

Flow-through common shares

A portion of the Company's exploration activities has been financed through the issuance of flow-through common shares. Under the terms of the common share issuance, the related resource expenditure deductions are renounced to the shareholders in accordance with income tax legislation. Flow-through common shares issued are recorded in share capital at the fair value of common shares on the date of issuance. The premium received

3. Summary of Significant Accounting Policies (continued)

on issuing flow-through common shares is initially recorded as a deferred credit. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

Government assistance

The Company receives funding from the Government of Alberta related to energy technology. This assistance is recorded as a reduction to the corresponding asset or expense when there is reasonable assurance of collection.

Earnings per share

Basic loss per common share is calculated using the weighted-average number of common shares issued and outstanding during the reporting period.

Financial instruments

Financial instruments are initially recognized in the consolidated statement of financial position at fair value. Subsequent measurement of financial assets and liabilities, except those at fair value through profit or loss and available-for-sale, are measured at amortized cost determined using the effective interest rate method.

Cash and restricted cash are comprised of cash balances and high interest savings accounts that may be redeemed at the Company's option. Short-term investments are comprised of guaranteed investment certificates that are not redeemable at the Company's option. Trade and other receivables, and prepaid expenses and deposits are classified as loans and receivables, while trade and other payables are classified as other financial liabilities. The Consent Fee Warrants are classified as a financial liability at fair value through profit or loss.

The fair value of cash, restricted cash, short-term investments, trade and other receivables, prepaid expenses and deposits, trade and other payables approximated their carrying value at December 31, 2015 and December 31, 2014 due to their short-term nature. The Continuing Notes are carried at their amortized cost which is their fair value. The Consent Fee Warrants are re-measured each period to determine the fair value and any changes to the carrying value are reflected in profit or loss. The Company has not designated any financial instruments as available-for-sale.

Determination of fair values

Certain accounting policies and disclosures require the Company to determine fair value for purposes of measurement or disclosure. Fair values have been determined using the methods outlined below using the applicable hierarchy, where applicable.

Level 1 fair value measurement
Level 1 fair value measurements are based on unadjusted quoted market prices in active markets that the Company can access at the measurement date.

Level 2 fair value measurement
Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.

Level 3 fair value measurement

Level 3 fair value measurements are based on unobservable inputs derived from management's estimate of fair value.

The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2015 and December 31, 2014.

Additional disclosure about the assumptions used in determining fair value is in the notes specific to the asset or liability.

Changes in accounting policies

There were no changes to the accounting standards adopted during the year ended December 31, 2015.

New accounting standards and interpretations not yet adopted

IFRS 9, *Financial Instruments,* is intended to replace IAS 39, *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a corporation can recognize the portion of the change in fair value related to the change in the corporation's own credit risk through other comprehensive income rather than net earnings. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of the adoption of IFRS 9 on the Company's consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*, provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework that applies to contracts with customers. In July 2015, the IASB issued an amendment to IFRS 15 which deferred the effective date by one year to annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the adoption of IFRS 15 on the Company's consolidated financial statements.

IFRS 16, *Leases*, will replace IAS 17, *Leases*, and a single recognition and measurement model will apply for lessees requiring recognition of assets and liabilities for most leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation is currently assessing the impact of the adoption of IFRS 16 on the Company's consolidated financial statements.

4. Retainers and Reorganization Expense

As at December 31, 2015, prepaid expenses and deposits included $0.5 million of retainers to professional advisors relating to the CCAA proceedings described in note 1.

Reorganization expense of $10.7 million incurred in the year was comprised of legal, monitoring and professional advisory fees associated with the CCAA proceedings. The reorganization expense also includes the Noteholder's costs pursuant to a requirement in the Indenture to reimburse the reasonable costs of the Noteholder.

5. Inventories

As at	**December 31 2015**	December 31 2014
Materials	**-**	4,282
Bitumen blend	**-**	607
Condensate	**-**	411
	-	5,300

During the third quarter of 2015, the Company evaluated the intended use of the inventory and determined it unlikely the inventory would be deployed within the next twelve months. Consequently, inventory critical to the re-start of operations at the Saleski pilot and Germain CDP were transferred from current assets to E&E assets.

6. Impairment

At December 31, 2015, the Company had indications of impairment on all CGUs due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. As a result, Laricina recorded an impairment loss of $528.6 million in 2015. The impairment loss is comprised of the following amounts related to each asset category and the respective CGU:

CGU	**E&E assets**	**Intangible assets**	**Other long-term assets**	**Total**
Saleski	145,070	30,206	-	175,276
Germain	321,248	-	-	321,248
Burnt Lakes	18,876	-	-	18,876
Other	13,203	-	-	13,203
Impairment loss	**498,397**	**30,206**	**-**	**528,603**

During the year ended December 31, 2014, the Company recorded an impairment loss of $195.2 million. This impairment was comprised of the following amounts related to each asset category and the respective CGU:

CGU	E&E assets	Intangible assets	Other long-term assets	Total
Saleski	-	-	-	-
Germain	121,035	15,845	-	136,880
Burnt Lakes	57,137	-	-	57,137
Other	-	-	1,156	1,156
Impairment loss	178,172	15,845	1,156	195,173

Impairment of other long-term assets for the year ended December 31, 2014 related to Scientific Research and Experimental Development (**SR&ED**) investment tax credits as it was not probable that future taxable profits would be available against which the benefits could be utilized.

For purposes of determining whether impairment of E&E assets, property, plant and equipment, intangible assets and other long-term assets exists, management exercises their judgement in estimating the FVLCD.

The FVLCD for each CGU was determined using transaction values related to prior land and resource sales of similar assets, stage of development and corporate liquidity and capital resources. Such transaction values with respect to resources sales were multiplied by the independently evaluated reserves and best estimate of contingent resources for the CGUs. In addition, management's estimates of recoverable resources were also used in the calculation of the transaction values. Fair value measurements are classified as one of three levels, which are described in note 3 of these financial statements. These FVLCD determinations are level 3 measures.

7. Exploration and Evaluation Assets

Cost	
Balance as at December 31, 2013	1,105,639
Additions	21,518
Balance as at December 31, 2014	1,127,157
Additions	4,219
Transfer of inventory (note 5)	4,398
Recoveries	(8,364)
Balance as at December 31, 2015	**1,127,410**
Accumulated depreciation	
Balance as at December 31, 2013	(29,265)
Depreciation	(49,020)
Impairment loss (note 6)	(178,172)
Balance as at December 31, 2014	(256,457)
Depreciation	(16,839)
Impairment loss (note 6)	(498,397)
Balance as at December 31, 2015	**(771,693)**
Carrying amounts	
As at December 31, 2014	870,700
As at December 31, 2015	**355,717**

E&E assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. Additions represent the Company's share of the costs incurred for E&E assets during the year. There were no amounts transferred to PP&E during 2015 and 2014.

On July 25, 2013, the Government of Alberta announced an Urban Development Sub-region (the **UDSR**) of more than 55,000 acres of Crown land for urban expansion in the Fort McMurray area. This extended over portions of Laricina's Conn Creek and Poplar Creek properties for which the Government of Alberta's communicated its intention to cancel these leases under the *Mines and Minerals Act*. In the third quarter of 2015, the Company received cash consideration of $7.8 million representing the value of the claims the Government of Alberta had determined compensated for expenditures associated with the acquisition and development of the mineral leases subject to cancellation, which approximated their carrying value. In relation with the UDSR claims, the Company also recorded $2.8 million of interest income. The cash payment for the claims and associated interest was received on December 8, 2015 and the corresponding leases were cancelled. Under the Settlement Agreement, these proceeds were considered an Anticipated Receivable and were remitted to the Noteholder as required and applied as a reduction to the outstanding Continuing Notes.

7. Exploration and Evaluation Assets (continued)

In the second quarter of 2015, the Canada Revenue Agency approved the majority of the 2010 and 2011 SR&ED tax claims. As a result, $0.6 million of the $0.8 million refundable portion of the Alberta tax credit was recognized as a reduction to the E&E assets. The cash payment and associated interest was received subsequent to year-end on February 4, 2016.

Depreciation of the central processing facility and related infrastructure associated with the Saleski pilot and the Germain CDP has been recorded in profit or loss. The depreciation of assets providing additional reservoir information was recapitalized as intangible assets. In 2015, the Company ceased depreciating the assets providing additional reservoir information at the Germain CDP and Saleski pilot and the recapitalization to intangibles, as the facilities were suspended at the end of the first and third quarters, respectively.

8. Property, Plant and Equipment

	Facilities and other equipment	Corporate assets	Total
Cost			
Balance as at December 31, 2013	85,060	9,041	94,101
Additions	7	1,375	1,382
Balance as at December 31, 2014	85,067	10,416	95,483
Additions	-	91	91
Balance as at December 31, 2015	**85,067**	**10,507**	**95,574**
Accumulated depreciation			
Balance as at December 31, 2013	(7,779)	(4,767)	(12,546)
Depreciation	(3,403)	(2,702)	(6,105)
Balance as at December 31, 2014	(11,182)	(7,469)	(18,651)
Depreciation	(3,403)	(1,692)	(5,095)
Balance as at December 31, 2015	**(14,585)**	**(9,161)**	**(23,746)**
Carrying amounts			
As at December 31, 2014	73,885	2,947	76,832
As at December 31, 2015	**70,482**	**1,346**	**71,828**

As at December 31, 2015 and December 31, 2014, assets held under a finance lease are included in facilities and other equipment with a gross carrying value of $15.0 million and accumulated depreciation of $3.0 million and $2.4 million, respectively.

9. Intangible Assets

	Infrastructure expansion	Depreciation of E&E assets	Total
Cost			
Balance as at December 31, 2013	12,509	17,160	29,669
Additions	-	23,349	23,349
Balance as at December 31, 2014	12,509	40,509	53,018
Additions	-	5,542	5,542
Balance as at December 31, 2015	**12,509**	**46,051**	**58,560**
Accumulated amortization			
Balance as at December 31, 2013	(782)	-	(782)
Amortization	(626)	-	(626)
Impairment loss (note 6)	-	(15,845)	(15,845)
Balance as at December 31, 2014	(1,408)	(15,845)	(17,253)
Amortization	(625)	-	(625)
Impairment loss (note 6)	-	(30,206)	(30,206)
Balance as at December 31, 2015	**(2,033)**	**(46,051)**	**(48,084)**
Carrying amounts			
As at December 31, 2014	11,101	24,664	35,765
As at December 31, 2015	**10,476**	**-**	**10,476**

At December 31, 2015 and December 31, 2014, the Company had intangible assets with a gross carrying value of $12.5 million relating to payments made to a third-party to expand the availability of power for the Company's future development projects at Germain. The amortization of this asset commenced during 2012 when the expansion was completed and will be recognized over the 20 year term of the contract with the third-party provider.

At December 31, 2015, the Company had no intangible assets relating to the recapitalization of the depreciation of E&E assets ($24.7 million at December 31, 2014) due to the impairment taken in the period as described in note 6. During the second quarter of 2011 and the first quarter of 2014, the Company commenced production from the Saleski pilot and Germain CDP, respectively. Although no proved reserves have been assigned to these projects, these projects were operating as management intended, and as a result, depreciation of the related assets was recognized. The depreciation of assets which directly contribute to the continued understanding of the reservoir and assist in the future assignment of proved reserves was recapitalized as an intangible asset. During the first and third quarters of 2015, operations were suspended at the Germain CDP and the Saleski pilot, respectively. As a result, the Company has ceased depreciation of the related assets and the corresponding recapitalization as an intangible asset.

10. Site Restoration Provision

Balance as at December 31, 2013	66,911
Provisions made during the year	148
Revisions (change in costs and timing)	(38,540)
Revisions (change in discount rate)	15,253
Accretion (note 15)	1,983
Balance as at December 31, 2014	45,755
Revisions (change in discount rate)	1,364
Accretion (note 15)	1,029
Balance as at December 31, 2015	**48,148**

The Company's site restoration provision includes obligations arising from its ownership interest in oil sands assets and facilities. The total future site restoration obligation is estimated based on the Company's net ownership interest in all wells, facilities, roads, infrastructure and camps, estimated costs to reclaim and abandon these assets, and the estimated timing of the costs to be incurred in future years.

The Company has estimated the net present value of these site restoration obligations to be $48.1 million as at December 31, 2015 ($45.8 million at December 31, 2014) based on an undiscounted total future liability of $81.6 million ($81.6 million at December 31, 2014). These obligations are expected to be settled over the next 27 years with the majority of the costs to be incurred between 2025 and 2040. The discount factor, being the risk-free rate related to the liability, was 2.2 percent at December 31, 2015 (2.3 percent at December 31, 2014).

11. Income Taxes

The provision for income taxes differs from the amount which would be expected by applying the combined federal and provincial statutory income tax rates to loss before tax. A reconciliation of the difference for the years ended December 31 is as follows:

	2015	2014
Reconciliation of effective tax rate		
Loss before income tax	**(715,641)**	(349,193)
Canadian statutory income tax rate (percent)	**26.00**	25.00
Expected income tax recovery at statutory rate	**(186,067)**	(87,298)
Increase in tax resulting from:		
Non-deductible costs	**29,889**	6,609
Unrecognized tax assets	**166,863**	91,362
Change in statutory rate	**(13,380)**	-
Other	**2,695**	-
Deferred income tax expense	**-**	10,673

Effective July 1, 2015, the Alberta provincial tax rate changed from 10.0 percent to 12.0 percent. The rate change resulted in an additional $13.4 million of unrecognized deferred income tax assets.

Deferred income tax assets were not recognized on the following deductible temporary differences for the years ended December 31:

	2015	2014
Unrecognized deferred tax assets		
PP&E and E&E assets, net of site restoration provision and SR&ED	**242,810**	-
Capital losses	**-**	34,102
Non-capital losses	**728,136**	347,035
Debt issuance costs	**1,198**	-
Share issuance costs	**197**	-
	972,341	381,137

Deferred income tax assets have not been recognized in respect of these items as it is not probable that future taxable profits will be available against which the benefits can be utilized.

The temporary differences that give rise to the deferred income tax assets and liabilities in the years ended December 31 are as follows:

	2015	2014
Deferred income tax liability		
PP&E and E&E assets, net of site restoration provision and SR&ED	**-**	(27,644)
Deferred income tax assets		
Non-capital losses	**-**	22,566
Share issuance costs	**-**	1,002
Debt issuance costs	**-**	4,076
	-	27,644
Deferred income tax assets	**-**	-

The movements in the deferred income tax assets and liabilities in the years ended December 31 is as follows:

	2014	Recognized in profit/loss	**2015**
Movements in deferred income tax balances during the year			
Capital assets	(27,644)	27,644	**-**
Non-capital losses	22,566	(22,566)	**-**
Debt issuance costs	4,076	(4,076)	**-**
Share issuance costs	1,002	(1,002)	**-**
	-	-	**-**

At December 31, 2015, the Company had non-capital losses of $728.1 million which begin to expire in 2024.

12. Initial Notes, Amended Notes, Continuing Notes and Payment-in-Kind Notes

As at	**December 31 2015**	December 31 2014
Initial notes	**-**	150,000
Continuing notes	**21,806**	-
Payment-in-kind notes	**34**	12,350
Provision for the acceleration payment	**-**	9,741
	21,840	172,091

Initial Notes and Payment-In-Kind Notes

On March 20, 2014, the Company issued the Initial Notes in an aggregate principal amount of $150.0 million bearing interest at a rate of 11.5 percent per annum and a maturity date of March 20, 2018. Interest is paid quarterly on February 28, May 31, August 31 and November 30. On each interest payment date until December 31, 2014, the Company had the option to elect to issue PIK Notes bearing interest at a rate of 11.5 percent per annum in lieu of cash payment of interest.

The Notes were originally subject to certain financial and operational covenants including the following:

- Minimum working capital of $95.0 million;
- Minimum average daily bitumen production volumes commencing in the fiscal quarter ended December 31, 2014 and each fiscal quarter thereafter; and
- Specified capital and operating expenditures commencing in the fiscal quarter ended June 30, 2014.

In addition, the Company was subject to certain exceptions and qualifications limiting the Company's ability to, among other things: incur additional indebtedness; create or permit liens to exist; create or permit to exist restrictions on the ability to make certain payments and distributions; make certain dispositions and transfers of assets; and initiate amalgamations, mergers or consolidations.

At December 31, 2014 and all fiscal quarters subsequent, the Company did not meet the minimum average daily bitumen production volume and the minimum working capital covenants. Upon these events of default, the Notes then bore interest at a rate of 13.5 percent per annum and the Company was restricted from issuing PIK Notes in lieu of payment of interest. The Company was able to resume issuing PIK Notes for interest payments and reimbursable costs of the Noteholder effective July 23, 2015, due to a provision in the Settlement Agreement. The Company has issued a nominal amount of PIK Notes at December 31, 2015 ($12.4 million at December 31, 2014).

As a result of the demand for repayment of the Notes by the Noteholder on March 16, 2015, the $162.4 million of Notes and an Acceleration Payment amount became immediately payable. The Acceleration Payment amount was calculated as 6.0 percent of the principal amount of the Notes outstanding on the acceleration date if the acceleration date occurred prior to March 20, 2016. A provision of $9.7 million was recorded in accrued liabilities as of December 31, 2014 for the Acceleration Payment associated with the Notes. However, on November 30, 2015, due to conditions met under the Settlement Agreement, the Noteholder waived all defaults and events of default and released the Company from the Acceleration Payment obligation. Consequently, the Company reversed the provision for the Acceleration Payment and the Continuing Notes are reclassified to long-term liabilities at December 31, 2015.

Amended Notes

As a result of the Court approval of the Settlement Agreement on August 5, 2015, the terms of the Notes under the Indenture were substantially modified (as discussed earlier in note 1) including the addition of the Note Conversion feature. The substantial modification of the terms resulted in the application of extinguishment accounting causing the derecognition of the existing Notes and recognition of the fair value of a compound financial instrument comprising both a liability component of $105.9 million and an equity component of $117.3 million (collectively, the **Amended Notes**) as well as the liability-classified Consent Fee Warrants and Note Repayment Warrants of $10.7 million.

Upon recognition of the fair value of the compound financial instrument, the Company determined the fair value of the liability component of the Notes on the basis of a similar stand-alone debt instrument without the Note Conversion feature. The amount allocated to the equity component was the residual amount after deducting the fair value of the liability component from the fair value of the entire Amended Notes. The equity component of the Amended Notes was recognized within contributed surplus on the consolidated statements of changes in equity. In addition, $8.6 million was recorded to contributed surplus to recognize the difference between what scenarios actually transpired at the close of the Settlement Transaction on November 30, 2015 and what was estimated to occur by management at the time the Settlement Agreement became effective on August 5, 2015 and was initially recognized.

Upon initial recognition, the $118.4 million difference between the carrying amount of the Notes and the fair value of the liability and equity components of the compound financial instrument was recognized in profit and loss as a loss on substantial modification of the Notes.

Fair value measurements are classified as one of three levels which are described in note 3 of these financial statements. The fair values of the entire Amended Notes, Consent Fee Warrants and Note Repayment Warrants were classified as level 3 measures under the fair value hierarchy.

Continuing Notes

On November 30, 2015, $44.1 million of the principal amount of the Continuing Notes remained after the Settlement Transaction, as described in note 1. The principal amount outstanding at December 31, 2015 is $33.5 million. The Continuing Notes are carried at their amortized cost on the consolidated statements of financial position. The difference between the amortized cost and principal balance will be recorded as accretion expense over the period until the maturity of the Continuing Notes on March 20, 2018.

The Indenture was amended by the First Supplemental Indenture on November 30, 2015 by way of the Settlement Agreement as described in note 1. The Continuing Notes are no longer subject to the financial and operational covenants described earlier in this note but the exceptions and qualifications limiting certain of the Company’s abilities continue on an amended basis. The Company has the option to redeem the principal amount of the Continuing Notes at a price of 103.0 percent, 102.0 percent and 101.0 percent plus the accrued and unpaid interest in the twelve month periods beginning on March 20, 2015, 2016 and 2017, respectively.

13. Credit Facility

Laricina has a demand credit facility of $10.0 million ($15.0 million at December 31, 2014) with a major Canadian chartered bank which is secured by an equivalent cash deposit which has been classified as restricted cash on the consolidated statements of financial position. Amounts drawn can take the form of prime rate-based loans, bankers' acceptances, LIBOR loans or letters of credit and will bear interest at the prime rate, bankers' acceptances rates or at LIBOR plus a spread above the reference rate between 1.0 percent and 2.0 percent per annum. As at December 31, 2015, the Company had issued letters of credit totalling $6.3 million ($6.4 million at December 31, 2014) under this credit facility and no cash amount had been drawn.

When the Initial Notes were issued on March 20, 2014, Laricina entered into an inter-creditor agreement wherein an event of default on the Notes constituted a cross default on the Company's demand credit facility. As at December 31, 2015, all events of default under the inter-creditor agreement that occurred on or prior to November 30, 2015 have been waived and no events of default have occurred subsequently.

14. 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 as at December 31, 2013	67,762	1,337,048
Performance share units exercised	126	2,801
Replacement options exercised	1,844	2,830
Balance as at December 31, 2014	69,732	1,342,679
Performance share units exercised	391	8,688
Issuance of shares	505,960	60,715
Share issuance costs, net of tax	-	(247)
Balance as at December 31, 2015	**576,083**	**1,411,835**

On November 30, 2015, the Company received proceeds of $0.7 million related to the Offering which resulted in approximately 6.0 million common shares being issued. Also on this date, Laricina completed the Settlement Transaction and $60.0 million of the Notes were converted to 500.0 million common shares. Both equity issuances were priced at $0.12 per common share (see notes 1 and 12).

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, and for each stock option exercised, the holder will receive one common share.

	2015			2014		
	Number of options (thousands)		**Weighted average exercise price**	Number of options (thousands)		Weighted average exercise price
Outstanding, beginning of year	**1,642**	**$**	**28.12**	2,088	$	27.36
Granted	**-**		**-**	85		11.44
Forfeited	**(725)**		**28.51**	(175)		29.33
Expired	**(188)**		**32.50**	(356)		19.03
Outstanding, end of year	**729**	**$**	**26.60**	1,642	$	28.12
Exercisable, end of year	**543**	**$**	**27.06**	947	$	28.59

Outstanding and exercisable options as at December 31, 2015:

			Outstanding		**Exercisable**
Exercise price ($/option)	**Number of options** (thousands)	**Weighted average remaining contractual life** (years)	**Weighted average exercise price** ($/option)	**Number of options** (thousands)	**Weighted average exercise price** ($/option)
10.00 – 14.99	45	5.5	10.00	11	10.00
15.00 – 19.99	22	5.0	15.00	8	15.00
20.00 – 24.99	200	1.2	20.00	200	20.00
25.00 – 29.99	131	4.1	28.50	73	28.50
30.00 – 34.99	190	3.1	31.28	110	31.30
35.00 – 39.99	141	2.2	35.02	141	35.02
	729	**2.8**	**26.60**	**543**	**27.06**

The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the Board of Directors on February 5, 2016 was deemed a change of control under the provisions of the stock option plan. As a result of both these events, accelerated vesting of all unvested options as of February 5, 2016 occurred subsequent to year-end.

For the year ended December 31, 2015, a compensation cost recovery of $1.3 million, comprised of $0.5 million of net general and administrative expense reduction and $0.8 million net reversal of amounts previously capitalized to exploration and evaluation assets, has been recorded for stock options. Compensation cost recovery is due to a reversal of expense or capital cost amounts associated with previously granted but unvested options that have been forfeited during the period, net of compensation costs related to the vesting grants.

The compensation cost recovery for the year ended December 31, 2015 was partially offset by the compensation cost of $2.5 million, comprised of $1.7 million capitalized as part of exploration and evaluation assets and $0.8 million of general and administrative expense for expired options that were previously reversed in the prior year.

For the corresponding period in 2014, a compensation cost of $1.6 million was recorded for options that had been granted, net of forfeitures, comprised of $1.4 million of general and administrative expense and $0.2 million capitalized as part of exploration and evaluation assets.

14. Share Capital (continued)

There were no grants of options issued during the year ended December 31, 2015. During the year ended December 31, 2014, a forfeiture rate of 10.0 percent was used for grants issued in the year when recording share-based payments related to the stock option plan.

		2015		2014
Black-Scholes model inputs				
Fair value per option	**$**	**-**	$	7.69
Expected volatility (percent)		**-**		70.8
Risk-free interest rate (percent)		**-**		1.8
Expected life (years)		**-**		7
Expected dividend yield		**-**		-

Expected volatility is based on historical volatility of publicly-traded peer companies. Expected life is based on general option-holder behaviour and the risk-free interest rate is based on Government of Canada bonds of a similar duration.

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 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. For each PSU exercised, the holder will receive one common share. The PSUs outstanding at December 31, 2015 have a weighted-average remaining contractual life of 4.2 years.

	2015			2014		
	Number of PSUs (thousands)		**Weighted Average Exercise Price**	Number of PSUs (thousands)		Weighted Average Exercise Price
Outstanding, beginning of year	**1,658**	**$**	**0.01**	1,140	$	0.01
Granted	**-**		**-**	908		0.01
Exercised	**(391)**		**0.01**	(126)		0.01
Forfeited	**(763)**		**0.01**	(246)		0.01
Expired	**(1)**		**0.01**	(18)		-
Outstanding, end of year	**503**	**$**	**0.01**	1,658	$	0.01
Exercisable, end of year	**238**	**$**	**0.01**	469	$	0.01

The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the Board of Directors on February 5, 2016 was deemed a change of control under the provisions of the PSU plan. As a result of both these events, accelerated vesting of all unvested PSUs as of February 5, 2016 occurred subsequent to year-end.

For the year ended December 31, 2015, a compensation cost recovery of $3.8 million, comprised of $1.7 million of net general and administrative expense reduction and a $2.1 million net reversal of amounts previously capitalized to exploration and evaluation assets, has been recorded. Compensation cost recovery is due to a reversal of expense or capital cost amounts associated with previously granted but unvested PSUs that have been forfeited during the period, net of compensation expense related to the vesting grants.

For the corresponding period in 2014, a compensation cost of $9.4 million was recorded for PSUs that had been granted, net of forfeitures, comprised of $7.8 million of general and administrative expense and $1.6 million capitalized as part of exploration and evaluation assets.

There were no grants of PSUs issued during the year ended December 31, 2015. During the year ended December 31, 2014, a forfeiture rate of 10.0 percent was used for grants issued in the year when recording share-based payments related to the PSUs.

	2015	2014
Black-Scholes model inputs		
Fair value per PSU	**$ -**	$ 13.59
Expected volatility (percent)	**-**	71.1
Risk-free interest rate (percent)	**-**	1.9
Expected life (years)	**-**	7
Expected dividend yield	**-**	-

Expected volatility is based on historical volatility of publicly-traded peer companies. Expected life is based on general option-holder behaviour and the risk-free interest rate is based on Government of Canada bonds of a similar duration.

Share appreciation rights

The Company has a SARs plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of SARs providing for cash payments equal to the excess of the market price of the common shares over the exercise price of the right. The vesting period of the SARs is two years.

There were no grants issued during the years ended December 31, 2015 and 2014.

	2015		2014	
	Number of SARs (thousands)	**Weighted average exercise price**	Number of SARs (thousands)	Weighted average exercise price
Outstanding, beginning of year	**24**	**$ 28.50**	102	$ 29.80
Expired	**(24)**	**28.50**	(73)	30.26
Forfeited	**-**	**-**	(5)	29.40
Outstanding, end of year	**-**	**$ -**	24	$ 28.50
Exercisable, end of year	**-**	**$ -**	18	$ 28.50

For the year ended December 31, 2015, a compensation recovery of $0.2 million ($0.7 million in 2014) was recognized for SARs granted. At December 31, 2015, the Company had no accrued liabilities for outstanding SARs ($0.2 million at December 31, 2014). At December 31, 2015 and 2014, the Company had no obligation for SARs that had vested.

14. Share Capital (continued)

Warrants

In conjunction with the issuance of the Initial Notes, the Company also issued 3,750,000 warrants to the Noteholder. These equity-classified warrants had exercise prices ranging from $15.00 to $20.00 per warrant, an expiry date of March 20, 2019 and vested immediately upon issue. From the proceeds received on the debt issuance in 2014, the amount allocable to the Initial Notes was determined first with the remaining proceeds in the amount of $14.2 million being allocated to the warrants.

As described in note 1, upon the completion of the Settlement Transaction, the 3.8 million warrants issued in conjunction with the issuance of the Initial Notes were surrendered and cancelled on November 30, 2015. On that same date, the Company issued 28.8 million Consent Fee Warrants which were vested immediately upon issue exercisable in the aggregate for that number of common shares that were equivalent to 5.0 percent of the common shares then outstanding and each such warrant having an exercise price of $0.25 per warrant with an expiry date of March 20, 2018. For each warrant exercised, the Noteholder will receive one common share.

These Consent Fee Warrants were classified as a liability due to the anti-dilution provisions contained in the warrant certificate and the number of warrants and warrant exercise price being subject to variability.

	2015		2014	
	Number of warrants (thousands)	**Weighted Average Exercise Price**	Number of warrants (thousands)	Weighted Average Exercise Price
Outstanding, beginning of year	**3,750**	**$ 18.00**	-	$ -
Granted	**28,804**	**0.25**	3,750	18.00
Cancelled	**(3,750)**	**18.00**	-	-
Outstanding and exercisable, end of year	**28,804**	**$ 0.25**	3,750	$ 18.00

For the year ended December 31, 2015, a finance recovery of $8.6 million was recorded to reflect the change in fair value from $10.7 million at initial recognition on August 5, 2015 to $2.1 million at December 31, 2015.

15. Finance Expense

Finance expense (recovery) for the years ended December 31 is as follows:

	2015	2014
Interest on Notes, Amended Notes and Continuing Notes	**17,436**	13,906
Accretion of site restoration obligation (note 10)	**1,029**	1,983
Provision for the acceleration payment (note 12)	**(9,741)**	9,741
Re-measurement of warrants (note 15)	**(8,600)**	-
Accretion of liability component of Amended Notes (note 12)	**6,608**	-
Amortization of debt issuance costs – Non-cash	**-**	18,748
Amortization of debt issuance costs – Cash	**-**	1,646
	6,732	46,024

16. Loss per Share

Basic loss per share

The calculation of basic loss per share for the year ended December 31, 2015 was based on the loss attributable to common shareholders of $715.6 million ($359.9 million in 2014) and the weighted-average number of common shares outstanding during the year, calculated as follows:

(thousands)	**2015**	2014
Issued common shares at beginning of year	**69,732**	67,762
Effect of performance share units exercised	**132**	72
Effect of common shares issued during year	**42,972**	1,241
Weighted-average common shares outstanding (basic)	**112,836**	69,075

Diluted loss per share

The calculation of diluted loss per share does not include options, replacement options or PSUs as the effect would be anti-dilutive.

The basic and diluted loss per share was $6.34 for the year ended December 31, 2015, compared to $5.21 for the year ended December 31, 2014.

17. Operating Expenses

During the year ended December 31, 2015, Laricina received $5.1 million of insurance proceeds, net of deductions, compensating the Company for certain costs incurred and losses sustained in relation to a third-party natural gas pipeline break at the Germain CDP in the fourth quarter of 2013. These payments were reflected as an offset to operating expenses.

Insurance proceeds of $3.1 million received by the Company after Court approval of the Settlement Agreement were remitted to the Noteholder within two business days of receipt in accordance with the terms of the Settlement Agreement relating to Anticipated Receivables.

18. Personnel Expenses

The aggregate payroll expenses of employees and executive officers for the years ended December 31, are as follows:

	2015	2014
General and administrative expense (recovery)		
Wages and salaries	**16,474**	14,276
Benefits and other personnel costs	**(304)**	3,413
Share-based payments	**(2,488)**	10,185
	13,682	27,874
Operating expense (recovery)		
Wages and salaries	**6,952**	10,278
Benefits and other personnel costs	**(82)**	1,300
SARs compensation costs	**(241)**	(652)
	6,629	10,926
	20,311	38,800

Personnel expenses directly related to E&E activities were capitalized and included in E&E assets until March 1, 2015 as a result of the deferral of the Saleski Phase 1 project.

19. Executive Compensation

In addition to salaries, the Company provides non-cash benefits to executive officers through participation in the Company's stock option and PSU plans. Share-based payments represent the amortization of compensation costs associated with grants of stock options and PSUs to executive officers as recorded in the financial statements.

Executive officer compensation costs for the years ended December 31 are comprised of the following, and are included within the amounts disclosed in note 18:

	2015	2014
Salaries	**2,438**	2,076
Benefits and other personnel costs	**80**	124
Share-based payments	**1,200**	4,924
	3,718	7,124

The execution of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements. The executive officers so affected have the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. The maximum liability to which the Company is exposed in this regard is $2.1 million, settlement of which would conclude before the end of the third quarter of 2016.

20. Financial Risk Management

The Company is exposed to certain financial risks as a result of exploration, development and financing activities. These risks include credit risk, liquidity risk and market risk. This note discusses the Company's exposure to these risks as well as the objectives, policies and processes for measuring and managing risk as well as capital management. The Board of Directors oversees management's establishment and execution of the risk management policies. The policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and market conditions.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. It is mitigated through credit practices that limit transactions according to counterparties' credit quality. A substantial portion of the Company's trade and other receivables is with a small number of joint operation partners in the oil and natural gas industry and is subject to normal industry credit risk and resolution processes under the joint venture agreements. Joint operation receivables are typically collected within one month of the joint interest bill being issued. Historically Laricina has not experienced any collection issues with its trade and other receivables. The Company did record a provision of $1.3 million at December 31, 2015 for those accounts for which recoverability is uncertain.

The carrying amount of financial assets at December 31 represents the maximum credit exposure as follows:

	2015	2014
Cash	**29,631**	113,902
Restricted cash	**10,000**	15,000
Short-term investments	**50**	51,000
Trade and other receivables	**8,196**	8,299
	47,877	167,341

The maximum exposure to credit risk for trade and other receivables by customer at December 31 was as follows:

	2015	2014
Joint operation partners	**4,249**	3,029
Other	**5,247**	5,270
	9,496	8,299
Provision for doubtful accounts	**(1,300)**	-
	8,196	8,299

The Company's most significant receivable at December 31, 2015 was with a joint operation partner for $4.2 million. The Company's most significant receivable at December 31, 2014 was $3.0 million with a joint operation partner.

There were no significant outstanding receivable amounts which were aged greater than 90 days as at December 31, 2015 and $4.7 million of outstanding trade and other receivables was collected subsequent to December 31, 2015.

20. Financial Risk Management (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liabilities. 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 its reputation. Laricina prepares annual capital and operating expenditure budgets that are monitored on a regular basis and updated as necessary. As discussed in note 2 the Company has material uncertainty which may cast doubt upon Laricina's ability to continue as a going concern.

As at December 31, 2015, cash was held in a fully-liquid, interest-bearing operating account and Laricina had $3.7 million available in the bank credit facility to manage its expenditures, if necessary. The Company's liabilities at December 31 with contractual maturities of less than one year are as follows:

	2015	2014
Trade and other payables	**5,519**	18,638
Initial notes and payment-in-kind notes[1]	**-**	172,091
	5,519	190,729

(1) Includes the provision for the Acceleration Payment.

On January 28, 2016, Laricina was granted a final court order from the Court to exit from protection under the CCAA, concluding the stay of proceeding against the Company and its subsidiaries effective upon the filing of a certificate by the Monitor which occurred February 1, 2016. The Company has paid in full all accounts in respect of its CCAA proceedings and has set aside a reserve of $1.8 million to pay the remaining unpaid proven claims and an outstanding disputed claim. To the extent that any proceedings regarding claims by or against Laricina are ongoing, these will continue on the timetables set by the Court or the parties until they are concluded.

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 Laricina's control. The Company closely monitors commodity prices to determine the appropriate course of action. Prices for oil are determined in global markets and generally denominated in United States (**US**) dollars. The exchange rate effect cannot be quantified but generally an increase in the Canadian dollar versus the US dollar reduces the price received for oil.

Capital management

The Company's objectives when managing capital are to safeguard its ability to pursue the 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 shareholders' equity, the Continuing Notes and working capital inclusive of the Consent Fee Warrants issued in 2015. The Company does not have material operations and the primary assets consist of oil sands properties for development. Accordingly, the Company may adjust capital expenditures, issue new shares, acquire or dispose of assets, enter into joint operation arrangements or issue new debt to manage the capital structure.

The Company is subject to externally imposed capital restrictions under the terms of the Continuing Notes as discussed in note 12. The credit facility referred to in note 13 is secured by an equivalent cash deposit.

21. Supplemental Cash Flow Information

The following table reconciles the net changes in non-cash working capital from the statements of financial position to the cash flow statements as at December 31, 2015 and 2014:

	2015	2014
Operating activities		
Trade and other receivables	**1,935**	(1,619)
Prepaid expenses and deposits	**(432)**	73
Inventories	**825**	(1,537)
Trade and other payables	**(4,744)**	(3,279)
Net change in non-cash working capital used in operating activities	**(2,416)**	(6,362)
Investing activities		
Trade and other receivables	**(1,832)**	2,633
Prepaid expenses and deposits	**119**	460
Inventories	**78**	(277)
Trade and other payables	**(8,393)**	(4,800)
Net change in non-cash working capital used in investing activities	**(10,028)**	(1,984)
Financing activities		
Trade and other payables	**15**	-
Net change in non-cash working capital provided by financing activities	**15**	-

The following table discloses the cash interest paid and cash interest received for the years ended December 31:

	2015	2014
Interest paid	**16,971**	-
Interest received	**4,073**	2,253

22. Contractual Obligations

At December 31, 2015, the Company had the following cash-settled contractual obligations:

	2016	2017	2018	2019	2020	Thereafter	Total
Trade and other payables	5,519	-	-	-	-	-	5,519
Interest payments on notes(1)(3)	4,807	5,439	1,808	-	-	-	12,054
Repayment of notes(2)(3)	-	-	33,527	-	-	-	33,527
Operating leases	576	227	21	-	-	-	824
Other contractual obligations	2,899	1,148	1,159	1,361	2,125	18,254	26,946
Total contractual obligations	**13,801**	**6,814**	**36,515**	**1,361**	**2,125**	**18,254**	**78,870**

(1) At the Company's option, the interest on the Continuing Notes and the PIK Notes may be paid in cash or by way of further PIK Notes.

(2) The Company is obligated to reimburse the reasonable expenses of the Noteholder and these amounts will be added to the repayment of PIK Notes in 2018.

(3) The repayment of notes in 2018 may be lower than the $33.5 million of Continuing Notes and $1.4 million of PIK Notes if the net proceeds of certain Anticipated Receivables or additional payments based on the outcome of certain events contemplated in the Settlement Agreement are applied. If the notes principal changes before the maturity date, this will affect the interest payable.

Other contractual obligations include electricity purchases, natural gas purchases, employee retention programs, buy-out options on camps and other obligations.

Corporate Information

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President and CEO

Noralee M. Bradley
Corporate Secretary

Derek A. Keller
Vice President Production

Diane T. Koenig
Vice President Finance and Controller

Marla A. Van Gelder
Vice President Corporate Development

Directors

Ian D. Bruce
Independent Investor

Mustafa Humayun
Investment Professional, CPPIB Credit Investments Inc.

S. Barry Jackson
Chairman, TransCanada Corporation

Jennifer K. Kennedy
Partner, Norton Rose Fulbright Canada LLP

Adam D. Vigna
Managing Director, Head of Principal Credit Investments of CPPIB Credit Investments Inc.

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KPMG LLP

Bankers

Canadian Imperial Bank of Commerce

Reservoir Engineers

GLJ Petroleum Consultants Ltd.

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