



LARICINA
ENERGY LTD.

2016 First Quarter Interim Report

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Management's Discussion and Analysis

This Management's Discussion and Analysis (**MD&A**) of the financial results of Laricina Energy Ltd. (**Laricina** or the **Company**) dated May 17, 2016 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2016 and March 31, 2015 (the **interim financial statements**), and the audited consolidated financial statements as at and for the year ended December 31, 2015 (the **annual financial statements**) and MD&A contained in the Company's annual report for 2015. The financial information contained in this MD&A is presented in thousands of Canadian dollars except as otherwise noted and derived from the interim financial statements prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

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 private, 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. These events are further described in the Significant Events for the Year Ended December 31, 2015 section of the MD&A contained in the Company's annual report for 2015.

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 and exploring opportunities to invest in other oil and gas activities.

Significant Events for the Three Months Ended March 31, 2016

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, as supplemented by the first supplemental indenture dated as of November 30, 2015 (collectively, the **Indenture**) governing the \$150.0 million of 11.5 percent senior secured notes (variously described over the course of 2015 as the **Initial Notes, Amended Notes** or **Continuing Notes**) issued thereunder, which caused such notes and payment-in-kind notes (the **PIK Notes**), also issued under that Indenture in lieu of cash payments of interest and reimbursable costs of the lender, (collectively the **Notes**) to become payable on demand at the option of the sole lender (the **Noteholder**).

Following the March 16, 2015 receipt of a demand for payment of all the outstanding indebtedness by the Noteholder and a notice of intention to enforce security against the assets of the Company, Laricina 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 Company was recapitalized on November 30, 2015 pursuant to a settlement arrangement (the **Settlement Agreement**) and the completion of the settlement transaction (the **Settlement Transaction**). Laricina continued to be protected from creditors for the balance of 2015 and exited from the protection under the CCAA effective February 1, 2016. The CCAA proceedings, Settlement Agreement and Settlement Transaction are further described in note 1 to the annual financial statements.

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 would be drawn. As of the date of this MD&A, \$0.7 million of those remaining unpaid proven claims have now been paid. 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 of directors, is reviewing Laricina's business plan.

The completion 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 and if any rights are exercised under the employment agreements, settlement will conclude before the end of the third quarter of 2016.

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 and the performance share unit plan. As a result of both these events, accelerated vesting of all unvested stock options and performance share units (**PSUs**) occurred on February 5, 2016 and, as such, all stock options and PSUs are exercisable.

Summary Quarterly Financial Information

For the three months ended March 31	2016	2015
Total assets	482,973	1,133,666
Working capital	41,091	(27,370)
Cash capital expenditures (recovery) ⁽¹⁾	(455)	2,880
Bitumen blend sales revenue	-	1,797
Finance and other income	3,708	2,372
Net loss and comprehensive loss	9,342	37,692
Loss per share – Basic and diluted	0.02	0.54

(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 at March 31, 2016 were lower than total assets at March 31, 2015 by \$650.7 million primarily as a result of the \$528.6 million impairment loss associated with exploration and evaluation (**E&E**) assets and intangible assets recognized in 2015, the \$68.6 million cash repayment of the Notes, Amended Notes and Continuing Notes in 2015, debt service costs in 2015 and working capital funding.

Working capital

Working capital as at March 31, 2016 was higher than working capital as at March 31, 2015 predominantly due to the reclassification of the Continuing Notes and PIK Notes to non-current liabilities at December 31, 2015, partially offset by lower cash, restricted cash and short-term investment balances.

Cash capital expenditures (recovery)

During the first quarter of 2016, the Canada Revenue Agency approved the 2012 and 2013 Scientific Research and Experimental Development (**SR&ED**) tax credit claims. As a result, \$0.4 million of the \$0.8 million refundable portion of the Alberta tax credit claim has been recorded as a cash capital recovery, reducing E&E assets accordingly. In the corresponding period of 2015, cash capital expenditures mainly consisted of the completion of 80.0 percent 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.

Bitumen blend sales revenue

In 2015, both the Germain CDP and Saleski pilot were suspended in an effort to conserve capital and preserve the value of the underlying assets and, as a result, there was no bitumen blend sales revenue in 2016. 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 each period 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 are discussed in the Corporate Results section of this MD&A.

Net loss and comprehensive loss

The net loss and comprehensive loss for the three-month period ended March 31, 2016 was lower than the three-month period ended March 31, 2015 largely due to lower operating costs and depreciation and amortization as a result of the suspension of the Germain CDP and Saleski pilot in 2015, lower reorganization expense and decreased general and administrative costs associated with fewer employees and severance costs incurred in the first quarter of 2015 for which there was no corresponding cost in 2016. Further discussion of the net loss and comprehensive loss for each of these periods is described in the Corporate Results section of this MD&A.

Results of Operations

For the three months ended March 31	2016	2015
Bitumen blend sales revenue	-	1,797
Royalties expense (recovery)	(2)	15
Transportation and blending expenses	-	1,470
Operating expenses	3,779	14,360

Bitumen blend sales revenue

Laricina derives bitumen blend sales revenue from production at the Germain CDP and Saleski pilot. The Company suspended operations at the Germain CDP in the first quarter of 2015 and at the Saleski pilot in the third quarter of 2015 in an effort to conserve capital and protect long-term value of the assets. As a result, there was no bitumen blend sales revenue in 2016.

For the three months ended March 31 (barrels)	2016	2015
Saleski pilot bitumen production volumes	-	7,669
Germain CDP bitumen production volumes	-	36,473
Bitumen production volumes	-	44,142
Bitumen blend sales volumes	-	66,967

Laricina's average realized sales price per barrel in Canadian (**Cdn**) dollars is net of terminal fees and other direct charges related to transportation.

For the three months ended March 31	2016	2015
Average realized sales price per barrel (Cdn \$/barrel)	\$ -	\$ 26.84
West Texas Intermediate (WTI) (United States \$/barrel)	\$ 33.45	\$ 48.63
WTI (Cdn \$/barrel)	\$ 45.88	\$ 60.37
Western Canadian Select (Cdn \$/barrel)	\$ 26.32	\$ 42.13

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. In the first quarter of 2016, the Company received a small credit from the Government of Alberta to reconcile actual 2015 royalty costs owing to amounts paid.

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. 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 three months ended March 31, 2016 consisted of the costs associated with the use of Laricina's camps by third parties, maintenance of the Chip Lake access road and costs related to securing and maintaining the integrity of the assets at the Germain CDP and Saleski pilot while operations are suspended. Operating expenses during the three-month period ended March 31, 2015 included the foregoing but were higher because the plants were operating during the period and costs to suspend operations at the Germain CDP were incurred.

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 three months ended March 31	2016	2015
Other income	3,619	1,827
General and administrative expenses, net	5,296	7,839
Depreciation and amortization	1,031	9,908
Finance income	89	545
Finance expense	2,718	5,633
Reorganization expense	163	2,543
Net loss and comprehensive loss	9,342	37,692

Other income

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

Other income for the three-month period ended March 31, 2016 compared to the same period in 2015 increased by \$1.8 million primarily due to higher third-party use of Laricina's camps.

General and administrative expenses

For the three months ended March 31	2016	2015
General and administrative expenses, gross	3,151	9,178
Share-based compensation costs (recovery)	2,145	(2,336)
Capitalized costs	-	997
General and administrative expenses, net	5,296	7,839

Beginning in the first quarter of 2015 and over the balance of that year, the Company took various measures to decrease general and administrative 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. As a result, general and administrative costs for three months ended March 31, 2016 consisted of essential services only and reflected 18 employees and a small complement of consultants to steward and operate the business. Also included in general and administrative expenses for the first quarter of 2016 was a \$1.2 million provision for a change of estimate. In the first quarter of 2015, the Company incurred gross severance costs of \$3.6 million of which \$3.0 million was included in general and administrative expenses and the remainder reflected in operating expenses.

Laricina's share-based compensation consists of costs associated with stock options and 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 during the period ended March 31, 2015, as compared to share-based compensation costs in the same period in 2016, primarily due to the reduction in the number of employees and the resulting forfeitures of unvested stock options and PSUs in the first quarter of 2015. As previously described in the Significant Events for the Three Months Ended March 31, 2016 section of this MD&A, accelerated vesting of all unvested stock options and PSUs occurred on February 5, 2016.

Capitalized costs consist of general and administrative costs directly related to project exploration and development activities. The Company ceased capitalization of costs after the first quarter of 2015 coinciding with the deferral of Saleski Phase 1 development.

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 in 2015, respectively, corresponding with the suspension of operations at the facilities. Recapitalization of depreciation and amortization associated with the Saleski pilot was discontinued September 1, 2015 coinciding with the commencement of activities to suspend operations. As a result of the suspension of operations, there was no depreciation recognized for these projects in 2016.

Depreciation and amortization in 2016 consists of the continuing depreciation associated with property, plant and equipment (**PP&E**) and amortization of certain intangible assets.

Finance income

Finance income in each of the first quarters of 2016 and 2015 primarily consisted of interest earned on cash, restricted cash and short-term investments. Finance income for the three-month period ended March 31, 2015 was higher than the corresponding period in 2016 due to higher cash balances on deposit combined with the effect of higher interest rates applied to those funds.

Finance expense

Finance expense for the three-month periods ended March 31, 2016 and March 31, 2015 consisted of interest on the Notes and accretion for the site restoration provision. For the three months ended March 31, 2016, the Company also had finance expenses related to the changes in fair value upon re-measurement of the liability on the 28.8 million warrants (**Consent Fee Warrants**) issued to the Noteholder in conjunction with the completion of

the Settlement Transaction and the amortized cost of the Continuing Notes. Refer to note 10 to the interim financial statements for a detailed composition of finance expense.

Finance expense was \$2.9 million lower in the first quarter of 2016 compared to the first quarter of 2015 principally due to the reduced debt balance upon which interest is payable, partially offset by the changes in fair value upon re-measurement of the Consent Fee Warrants liability and the amortized costs of the Continuing Notes in 2016.

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 cash 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.

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 is 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.

On February 1, 2016, the Company exited from the protection under the CCAA and, as a result, the costs stemming from the CCAA proceedings ceased.

Net loss and comprehensive loss

Net loss and comprehensive loss for the three-month period ended March 31, 2016 was \$9.3 million compared to \$37.7 million for the corresponding period of 2015. This decrease was mainly due to lower operating costs and depreciation and amortization as a result of the suspension of the Germain CDP and Saleski pilot in 2015. The remaining change was due to lower general and administrative costs which were attributable to fewer employees in 2016 and severance costs incurred in the first quarter of 2015 for which there was no corresponding cost in 2016, decreased reorganization costs as the Company exited from the protection under the CCAA on February 1, 2016, lower interest expense associated with the reduced Continuing Notes principal outstanding, and higher other income as a result of increased third-party usage of the camps. These decreases were partially offset by no bitumen blend sales revenue for 2016 as both projects were suspended during 2015 and increased accretion expense associated with the amortized cost of the Continuing Notes.

Capital Investment

Capital investment includes costs related to E&E assets, PP&E, capitalized general and administrative expenses, and non-cash expenditures.

For the three months ended March 31	2016	2015
Exploration and evaluation assets:		
Saleski	(455)	2,501
Other	-	(171)
Cash expenditures (recovery) on E&E	(455)	2,330
Cash expenditures on PP&E	-	59
Cash expenditures on capitalized general and administrative expenses	-	491
Total cash capital expenditures (recovery)	(455)	2,880
Non-cash capital expenditures and provisions ⁽¹⁾	1,108	1,129
Total capital expenditures	653	4,009

(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. Laricina reached approximately 80.0 percent completion of detailed engineering and design for Saleski Phase 1 before the decision to defer any further project development was made late in the first quarter of 2015. As a result of these events, capital activity in the first quarter of 2016 was minimal. The cash recovery in the three-month period ended March 31, 2016 was a result of the Company's recognition of the refundable portion of the Alberta tax credit for the 2012 and 2013 SR&ED tax credit claims. Of the \$0.8 million refundable portion, \$0.4 million was applicable to capitalized amounts. The remaining balance of the cash recovery was the result of a nominal sale of a non-essential spare part.

Laricina had no exploration expenditures during the first quarter of 2016. The exploration expenditures for the same period in 2015 at Saleski included the acquisition of 1.1 square kilometres of four-dimensional seismic which was completed early in the second quarter.

Germain exploration and evaluation assets

Laricina suspended operations at the Germain CDP during the first quarter of 2015 and, as a result, there were no capital expenditures at Germain during 2015 or 2016.

Other exploration and evaluation assets

Other exploration and evaluation assets capital costs generally relate to the ongoing maintenance of Laricina's remaining oil sands properties. The cash recovery relating to other exploration and evaluation assets in the first quarter of 2015 consisted of a reimbursement from the Climate Change and Emissions Management Corporation for innovation work conducted on the Enhanced Solvent Extraction Incorporating Electromagnetic Heating project in previous periods.

Property, plant and equipment

There were no capital expenditures for property, plant, and equipment as the Company continues efforts to conserve cash. Property, plant and equipment additions during the first three months of 2015 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 capitalizes general and administrative costs.

Non-cash capital expenditures

Non-cash capital expenditures during the three months ended March 31, 2016 and March 31, 2015 consisted largely of the change in rate associated with the provision for future site restoration. In the first quarter of 2015, non-cash capital expenditures also included the capitalization of non-cash share-based payments.

Intangible Assets

Historically, 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.

At December 31, 2015, an impairment loss relating to all intangible assets having arisen from the recapitalization of certain components was recognized.

Selected Quarterly Information

<i>(thousands of dollars, except per share amounts)</i>	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Working capital (deficiency)	41,091	43,798	(56,341)	(30,414)	(27,370)	3,899	192,657	218,508
Cash capital expenditures (recovery)	(455)	818	394	(8,194)	2,880	7,824	9,143	12,253
Bitumen blend sales revenue	-	(10)	791	1,952	1,797	5,702	7,713	6,880
Finance income	89	90	273	3,165	545	746	758	889
Other income	3,619	2,556	2,699	1,579	1,827	4,124	3,110	1,396
Net loss and comprehensive loss	9,342	198,203	464,293	15,453	37,692	284,353	25,236	27,339
Loss per share - Basic and diluted	\$ 0.02	\$ 0.82	\$ 6.65	\$ 0.22	\$ 0.54	\$ 4.08	\$ 0.36	\$ 0.40

Working capital (deficiency)

Positive working capital beginning in the fourth quarter of 2015 is primarily a result of the reclassification of the Continuing Notes and PIK Notes from current liabilities to non-current liabilities following the Noteholder's waiver of all defaults and events of default. Laricina had previously reclassified the Initial Notes and PIK 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 earlier quarters in 2014 reflected the impact of the proceeds due to the issuance of the Initial Notes in the first quarter of 2014.

Cash capital expenditures (recovery)

In the first quarter of 2016, the Company recorded a recovery related to the refundable portion of the 2012 and 2013 Alberta SR&ED tax credit claims.

Beginning in early 2015, cash capital expenditures were minimal, and will continue to be so, 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 Urban Development Sub-regain (**UDSR**) and the refundable portion of the 2010 and 2011 Alberta SR&ED tax credit claims.

Capital expenditures during 2014 predominantly consisted of the advancement of 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

The Company suspended operations during the first quarter and third quarter of 2015 at the Germain CDP and the Saleski pilot, respectively and, as a result, there was a concurrent decrease in production.

Initial production commenced at the Germain CDP beginning in the first quarter of 2014. Production ramped-up at Germain throughout the year by converting well-pairs to production and the commencement of solvent-cyclic steam-assisted gravity drainage in the third quarter. As a result of a decrease in the underlying benchmark pricing, there was also a decline in the average realized sales price beginning in the fourth quarter of 2014. The remaining change was due to 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 because of the lower average funds held on deposit. There was an increase during the second quarter of 2015 related to the interest income 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.

Net loss and comprehensive loss

An impairment loss was taken in the last two quarters of 2015 and the fourth quarter of 2014 which led to the higher net loss and comprehensive loss in those respective quarters. In the third quarter of 2015, Laricina also recognized a loss on substantial modification of the Notes under the Settlement Agreement. Beginning in the first quarter of 2015, the following activities were initiated which served to increase the net 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. As a result of the recognition of operating expenses and depreciation associated with the start-up of the Germain CDP, net loss and comprehensive loss increased beginning in the first quarter of 2014. 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 March 31, 2016, Laricina had capital resources of \$41.1 million.

Cash, restricted cash and short-term investments	37,559
Non-cash working capital	3,532
Capital resources available	41,091

The interim 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 period ended March 31, 2016, 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 \$37.6 million and PIK Note capability, the Company expects to be able to discharge its trade and other payables, unpaid proven claims, contractual obligations and any outstanding debt for the next twelve months. Laricina has developed a scaled-back business plan to enable the Company to continue for the foreseeable future while reviewing the business plan and exploring alternatives. 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 may not 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 0.2 percent to 0.8 percent during the first three months of 2016. 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 1.0 percent over the first three months of 2016. 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 and PIK Notes

The principal amount of the Continuing Notes outstanding at March 31, 2016 is \$33.5 million. The Continuing Notes are carried at their amortized cost on the condensed 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 have a maturity date of March 20, 2018, and bear interest at a rate of 13.5 percent per year.

PIK Notes may be issued in lieu of cash payment of interest and reimbursable costs of the Noteholder. The PIK Notes are due on March 20, 2018 and bear an interest rate of 13.5 percent per annum.

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. All defaults and events of default that occurred on or before November 30, 2015 relative to this demand credit facility have been waived and no events of default have occurred subsequent.

As of the date of this MD&A, 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 reactivation 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.

Contractual obligations

At May 17, 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⁾	-	-	34,899	-	-	-	34,899
Operating leases	287	136	20	-	-	-	443
Other contractual obligations	860	1,147	1,159	1,361	2,125	18,254	24,906
Total contractual obligations	4,822	6,756	37,881	1,361	2,125	18,254	71,199

- (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 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, costs associated with the camps, employee retention programs and other obligations.

2016 Outlook

The Company is continuing to review Laricina's current scaled-back business plan in the context of current market conditions and emerging business opportunities. The review process is considering the costs of managing the oil sands assets and preservation of their value through a potentially protracted period of suspension, as well as other investment opportunities and alternatives for raising additional capital to build sufficient financial capacity for future development and repayment of the Continuing Notes and PIK Notes in March 2018.

Outstanding Share Data

At May 17, 2016, share capital consisted of the following:

(thousands)

Common shares	576,300
Stock options	656
Performance share units	93
Consent Fee Warrants	28,804
Total	605,853

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

Non-IFRS Financial Measures

This MD&A may contain 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.

Critical Accounting Estimates and Judgments and Policies

A discussion of the Company's significant accounting policies and of the nature and basis of judgements, critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses are described in notes 2 and 3 of the Company's annual financial statements. The Company has applied these same judgments, accounting estimates, assumptions and policies consistently throughout all periods presented.

Risk Management

The current risk factors influencing the Company remain substantially unchanged from those detailed in the Risk Management section of the MD&A included in the Company's annual report for 2015.

Advisory on Forward-Looking Statements

This MD&A and interim 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 relating to the review of the Company's business plans, the preservation and future development of the Company's assets; opportunities and alternatives for additional capital and repayment of indebtedness and other obligations; 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 May 17, 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 interim 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 interim 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 interim report are expressly qualified by this advisory and disclaimer.

Condensed Consolidated Statements of Financial Position

Unaudited

As at (thousands of Canadian dollars)	Note	March 31 2016	December 31 2015
Assets			
Current assets			
Cash		27,509	29,631
Restricted cash	8	10,000	10,000
Short-term investments		50	50
Trade and other receivables		4,735	8,196
Prepaid expenses and deposits	3	3,035	1,440
		45,329	49,317
Non-current assets			
Exploration and evaluation assets	4	356,354	355,717
Property, plant and equipment	5	70,969	71,828
Intangible assets	6	10,321	10,476
		437,644	438,021
Total assets		482,973	487,338
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		4,238	5,519
Non-current liabilities			
Continuing notes and payment-in-kind notes	7	24,524	21,840
Consent fee warrants	9	2,189	2,135
Site restoration provision		49,520	48,148
Total liabilities		80,471	77,642
Shareholders' equity			
Share capital	9	1,413,819	1,411,835
Contributed surplus		172,830	172,666
Deficit		(1,184,147)	(1,174,805)
Total shareholders' equity		402,502	409,696
Total liabilities and shareholders' equity		482,973	487,338

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

CCAA proceedings (note 1) and going concern basis of presentation (note 2)

Condensed Consolidated Statements of Net Loss and Comprehensive Loss

Unaudited

For the three months ended March 31

(thousands of Canadian dollars)

	Note	2016	2015
Revenue			
Bitumen blend sales		-	1,797
Royalties		2	(15)
		2	1,782
Other income		3,619	1,827
		3,621	3,609
Expenses			
Transportation and blending		-	1,470
Operating		3,779	14,360
Pre-exploration		65	93
General and administrative		5,296	7,839
Depreciation and amortization	4,5,6	1,031	9,908
		10,171	33,670
Net loss from operating activities		(6,550)	(30,061)
Finance income		89	545
Finance expense	10	(2,718)	(5,633)
Net finance expense		(2,629)	(5,088)
Reorganization expense	3	(163)	(2,543)
Net loss and comprehensive loss		(9,342)	(37,692)
Loss per common share	11		
Basic and diluted		\$ 0.02	\$ 0.54

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

Condensed Consolidated Statements of Changes in Equity

Unaudited

<i>(thousands of Canadian dollars)</i>	Note	Share capital	Contributed surplus	Deficit	Total equity
Balance as at December 31, 2014		1,342,679	57,926	(459,164)	941,441
Net loss and comprehensive loss		-	-	(37,692)	(37,692)
Share-based net recoveries		-	(2,337)	-	(2,337)
Performance share units exercised		182	(182)	-	-
Balance as at March 31, 2015		1,342,861	55,407	(496,856)	901,412
Net loss and comprehensive loss		-	-	(677,949)	(677,949)
Shares issued, net of share issuance costs		60,468	-	-	60,468
Share-based net recoveries		-	(151)	-	(151)
Performance share units exercised		8,506	(8,502)	-	4
Equity component of notes		-	125,912	-	125,912
Balance as at December 31, 2015		1,411,835	172,666	(1,174,805)	409,696
Net loss and comprehensive loss		-	-	(9,342)	(9,342)
Share-based payments	9	-	2,146	-	2,146
Performance share units exercised	9	1,984	(1,982)	-	2
Balance as at March 31, 2016		1,413,819	172,830	(1,184,147)	402,502

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

Condensed Consolidated Statements of Cash Flows

Unaudited

For the three months ended March 31

(thousands of Canadian dollars)

	Note	2016	2015
Cash flows from operating activities			
Net loss and comprehensive loss		(9,342)	(37,692)
Adjustments for:			
Depreciation and amortization	4,5,6	1,031	9,908
Equity-settled share-based payments (recovery)	9	2,146	(848)
Loss on disposal of exploration and evaluation assets	4	15	-
Non-cash reimbursable costs to the Noteholder	7	216	-
Non-cash finance expense	7,10	2,770	243
		(3,164)	(28,389)
Net change in non-cash operating working capital	12	474	63
Net cash used in operating activities		(2,690)	(28,326)
Cash flows from investing activities			
Exploration and evaluation assets			
Expenditures	4	(1)	(2,880)
Recoveries	4	381	-
Proceeds from disposal	4	75	-
Change in short-term investments		-	39,950
Net change in non-cash investing working capital	12	127	(8,537)
Net cash from investing activities		582	28,533
Cash flows from financing activities			
Proceeds from the issuance of common shares	9	2	-
Net change in non-cash financing working capital	12	(16)	-
Net cash used in financing activities		(14)	-
Net increase (decrease) in cash		(2,122)	207
Cash, beginning of period		29,631	128,902
Cash, end of period		27,509	129,109

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

Notes to the Condensed Consolidated Interim Financial Statements

As at March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015

Unaudited

(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 private, 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 deferred the further development of Saleski Phase 1 and suspended operations at the Germain commercial demonstration project (**CDP**) in the first quarter of 2015 in an effort to preserve financial capacity and protect the long-term value of its assets. Similarly, and in view of continuing economic uncertainties, Laricina suspended operations at the Saleski pilot in September 2015.

Following the March 16, 2015 receipt of a demand for payment of all the outstanding indebtedness by the sole lender (the **Noteholder**) and a notice of intention to enforce security against the assets of the Company, Laricina 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 Company was recapitalized on November 30, 2015 pursuant to a settlement arrangement (the **Settlement Agreement**) and the completion of the settlement transaction (the **Settlement Transaction**). Laricina continued to be protected from creditors for the balance of 2015 and exited from the protection under the CCAA effective February 1, 2016. Total assets as at January 31, 2016 were \$485.4 million and there has been no material change for any one account since then. The CCAA proceedings, Settlement Agreement and Settlement Transaction are further described in note 1 to the audited consolidated financial statements as at and for the year ended December 31, 2015 (the **annual financial statements**).

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 approved under a claims process (the **Claims Process**) and an outstanding disputed claim would be drawn. As at March 31, 2016, \$0.7 million of those remaining unpaid proven claims have been paid. 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 of directors, is reviewing Laricina's business plan.

1. Corporate Information (continued)

The completion 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 and if any rights are exercised under the employment agreements, settlement will conclude before the end of the third quarter of 2016.

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 and the opportunities to engage in other activities.

2. Basis of Preparation

Statement of compliance

These condensed consolidated interim financial statements of the Company and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., as at March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015 (the **interim financial statements**) have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

These interim financial statements should be read in conjunction with the annual financial statements which were prepared in accordance with IFRS and are included in the Company's annual report for 2015.

Certain comparative figures have been reclassified to comply with the presentation adopted in the current period.

These interim financial statements were approved for release to shareholders by the board of directors on May 17, 2016.

Significant accounting policies

The accounting policies applied by the Company and its subsidiaries in these interim financial statements are the same as those applied by the Company and its subsidiaries in the annual financial statements as at and for the year ended December 31, 2015.

Basis of presentation

These interim 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 interim financial statements may be necessary.

For the three months ended March 31, 2016, 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 \$37.6 million and the company's ability to issue payment-in-kind notes (**PIK Notes**) in lieu

of cash payments of interest and reimbursable costs of the Noteholder, Laricina expects to be able to discharge its trade and other payables, unpaid proven claims, contractual obligations and any outstanding debt for the next twelve months. Laricina has developed a scaled-back business plan to enable the Company to continue for the foreseeable future while reviewing the business plan and exploring alternatives. 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 may not 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 debt obligations maturing 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 measurement

The interim 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 notes (the **Continuing Notes**) issued under the indenture dated March 20, 2014, as supplemented by the first supplemental indenture dated as of November 30, 2015 (collectively, the **Indenture**) are carried at amortized cost which is their approximate fair value. There have been no changes in the quarter to the assumptions underlying this fair value. The Consent Fee Warrants (as defined in note 9) are re-measured each period to determine the fair value and any changes to the carrying value are reflected in profit or loss. The methods used to measure fair value are discussed in note 3 to the annual financial statements.

Functional and presentation currency

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

Use of estimates and judgments

The nature and basis of judgements, critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in these interim financial statements are unchanged from those described in note 2 to the annual financial statements.

3. Retainers and Reorganization Expense

As at March 31, 2016, prepaid expenses and deposits included \$0.5 million of retainers to professional advisors relating to the CCAA proceedings described in note 1. Subsequent to the first quarter of 2016, all of these amounts were returned to Laricina.

As described in note 1, a \$1.8 million reserve relating to the Claims Process was included within prepaid expenses. Subsequent to March 31, 2016, \$0.7 million of this reserve was drawn down and returned to Laricina upon payment of those remaining proven claims by Laricina during the first quarter of 2016.

3. Retainers and Reorganization Expense (continued)

Reorganization expense of \$0.2 million incurred in the three-month period ended March 31, 2016 (March 31, 2015 - \$2.5 million) 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.

4. Exploration and Evaluation Assets

Cost

Balance as at December 31, 2014	1,127,157
Additions	4,219
Transfer of inventory	4,398
Recoveries	(8,364)
Balance as at December 31, 2015	1,127,410
Additions	1,124
Disposals	(90)
Recoveries	(381)
Balance as at March 31, 2016	1,128,063

Accumulated depreciation

Balance as at December 31, 2014	(256,457)
Depreciation	(16,839)
Impairment loss	(498,397)
Balance as at December 31, 2015	(771,693)
Depreciation	(16)
Balance as at March 31, 2016	(771,709)

Carrying amounts

As at December 31, 2015	355,717
As at March 31, 2016	356,354

On January 29, 2016, the Canada Revenue Agency approved the 2012 and 2013 Scientific Research and Experimental Development tax credit claims. As a result, \$0.4 million of the \$0.8 million refundable portion of the Alberta tax credit was recognized as a capital recovery and reduced exploration and evaluation assets accordingly.

5. Property, Plant and Equipment

	Facilities and other equipment	Corporate assets	Total
Cost			
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
Additions	-	-	-
Balance as at March 31, 2016	85,067	10,507	95,574
Accumulated depreciation			
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)
Depreciation	(852)	(7)	(859)
Balance as at March 31, 2016	(15,437)	(9,168)	(24,605)
Carrying amounts			
As at December 31, 2015	70,482	1,346	71,828
As at March 31, 2016	69,630	1,339	70,969

As at March 31, 2016 and December 31, 2015, 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 \$3.2 million and \$3.0 million, respectively.

6. Intangible Assets

	Infrastructure expansion	Depreciation of E&E assets	Total
Cost			
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
Additions	-	-	-
Balance as at March 31, 2016	12,509	46,051	58,560
Accumulated amortization			
Balance as at December 31, 2014	(1,408)	(15,845)	(17,253)
Amortization	(625)	-	(625)
Impairment loss	-	(30,206)	(30,206)
Balance as at December 31, 2015	(2,033)	(46,051)	(48,084)
Amortization	(155)	-	(155)
Balance as at March 31, 2016	(2,188)	(46,051)	(48,239)
Carrying amounts			
As at December 31, 2015	10,476	-	10,476
As at March 31, 2016	10,321	-	10,321

7. Continuing Notes and Payment-in-Kind Notes

As at	March 31 2016	December 31 2015
Continuing notes	23,119	21,806
Payment-in-kind notes	1,405	34
	24,524	21,840

The principal amount of the Continuing Notes outstanding at March 31, 2016 is \$33.5 million (December 31, 2015 - \$33.5 million). The Continuing Notes are carried at their amortized cost on the condensed consolidated statements of financial position. The difference between the amortized cost and principal balance will be recorded as an accretion expense over the period until the maturity of the Continuing Notes.

The PIK Notes issued are in lieu of cash payment of interest and reimbursable costs of the Noteholder. Both the Continuing Notes and PIK Notes are due on March 20, 2018 and bear an interest rate of 13.5 percent per annum.

The Continuing Notes and PIK Notes are not subject to financial and operational covenants under the Indenture but there exist exceptions and qualifications limiting certain of the Company's abilities 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.

The Company has the option to redeem the principal amount of the Continuing Notes and PIK Notes at a price of 102.0 percent and 101.0 percent plus the accrued and unpaid interest in the twelve-month periods beginning on March 20, 2016 and 2017, respectively.

8. Credit Facility

Laricina has a demand credit facility of \$10.0 million (December 31, 2015 - \$10.0 million) with a major Canadian chartered bank which is secured by an equivalent cash deposit which has been classified as restricted cash on the condensed 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 March 31, 2016, the Company had issued letters of credit totalling \$6.3 million (\$6.3 million at December 31, 2015) under this credit facility and no cash amount had been drawn.

9. 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, 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
Performance share units exercised	135	1,984
Balance as at March 31, 2016	576,218	1,413,819

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 stock 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.

9. Share Capital (continued)

	Number of options (thousands)		Weighted average exercise price
Outstanding, December 31, 2015	729	\$	26.60
Expired	(4)		32.50
Outstanding and exercisable, March 31, 2016	725	\$	26.57

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 stock options occurred on February 5, 2016 and, as such, all stock options are exercisable.

Net compensation expense or recovery associated with stock options is comprised of share-based compensation expense and capital costs related to the vesting grants and the reversal of expense or capital cost amounts associated with previously granted but unvested stock options that have been forfeited during the periods. All options are expected to expire by 2021.

For the three months ended March 31	2016	2015
General and administrative expense (recovery)		
Share-based payments	594	-
Share-based forfeitures	-	(662)
	594	(662)
Exploration and evaluation assets		
Share-based forfeitures	-	(43)
Net compensation expense (recovery)	594	(705)

Performance share unit plan

The Company has a performance share unit plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of performance share units (**PSUs**). PSUs have an exercise price of \$0.01 per PSU and vest on dates determined by the board of directors at the time of grant. For each PSU exercised, the holder will receive one common share.

	Number of PSUs (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2015	503	\$	0.01
Exercised	(135)		0.01
Outstanding and exercisable, March 31, 2016	368	\$	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 occurred on February 5, 2016 and, as such, all PSUs are exercisable.

Net compensation expense or recovery associated with PSUs is comprised of share-based compensation expense and capital costs related to the vesting grants and the reversal of expense or capital cost amounts associated with previously granted but unvested PSUs that have been forfeited during the periods. All PSUs are expected to expire by 2021.

For the three months ended March 31	2016	2015
General and administrative expense (recovery)		
Share-based payments	1,552	-
Share-based forfeitures	-	(1,545)
	1,552	(1,545)
Exploration and evaluation assets		
Share-based forfeitures	-	(86)
Net compensation expense (recovery)	1,552	(1,631)

Warrants

In conjunction with the completion of the Settlement Transaction on November 30, 2015, the Company issued 28.8 million warrants (**Consent Fee Warrants**) exercisable in the aggregate for that number of common shares that were equivalent to 5.0 percent of the common shares then outstanding, each such warrant having an exercise price of \$0.25 per warrant with an expiry date of March 20, 2018 and vested immediately upon issue. For each warrant exercised, the Noteholder will receive one common share.

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

	Number of warrants (thousands)	Weighted Average Exercise Price
Outstanding and exercisable, December 31, 2015	28,804	\$ 0.25
Outstanding and exercisable, March 31, 2016	28,804	\$ 0.25

A finance expense of \$0.1 million was recorded to reflect the change in fair value of the Consent Fee Warrants for the three-month period ended March 31, 2016.

10. Finance Expense

Finance expense for the three-month period ended March 31 is as follows:

	2016	2015
Interest on Continuing Notes	1,103	5,390
Accretion of site restoration obligation	248	243
Re-measurement of warrants (note 9)	54	-
Accretion of amortized cost of Continuing Notes (note 7)	1,313	-
	2,718	5,633

11. Loss per Share

Basic loss per share

The calculation of basic loss per share for the three months ended March, 31 2016 was based on the loss attributable to common shareholders of \$9.3 million (March 31, 2015 - \$37.7 million) and the weighted-average number of common shares outstanding during the period, calculated as follows:

<i>(thousands)</i>	2016	2015
Issued common shares at beginning of period	576,083	69,732
Effect of performance share units exercised	29	1
Weighted-average common shares outstanding (basic)	576,112	69,733

Diluted loss per share

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

The basic and diluted loss per share was \$0.02 for the three months ended March 31, 2016, compared to \$0.54 for the three months ended March 31, 2015.

12. Supplemental Cash Flow Information

The following table reconciles the net changes in non-cash working capital from the condensed consolidated statements of financial position to the condensed consolidated cash flow statements:

As at March 31	2016	2015
Operating activities		
Trade and other receivables	3,310	1,415
Prepaid expenses and deposits	(1,595)	(1,654)
Inventories	-	637
Trade and other payables	(1,241)	(335)
Net change in non-cash operating working capital	474	63
Investing activities		
Trade and other receivables	151	(1,913)
Prepaid expenses and deposits	-	54
Inventories	-	78
Trade and other payables	(24)	(6,756)
Net change in non-cash investing working capital	127	(8,537)
Financing activities		
Trade and other payables	(16)	-
Net change in non-cash financing working capital	(16)	-

The following table discloses the cash interest paid and cash interest received for the three months ended March 31:

	2016	2015
Interest paid	-	5,120
Interest received	89	1,024

Corporate Information

Officers

Glen C. Schmidt
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.

Auditors

Deloitte LLP

Bankers

Canadian Imperial Bank of
Commerce

Reservoir Engineers

GLJ Petroleum Consultants Ltd.

Registrar and Transfer Agent

Equity Financial Trust Company

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