LARICINA ENERGY LTD.

# 2015 First Quarter Interim Report

On March 30, 2015, Laricina was granted an order staying all creditor proceedings against Laricina until April 24, 2015 and PricewaterhouseCoopers Inc. (the Monitor) was appointed as the Monitor of Laricina under the *Companies' Creditors Arrangement Act* (Canada) (the CCAA). Subsequent to the quarter a further order staying creditor proceedings until and including July 7, 2015 was granted.

While in the midst of the CCAA process, we have continued to operate albeit with a very different operating profile and our current financial objective is to advance the CCAA process as expeditiously as possible and complete the restructuring process.

Our operating strategy in the first quarter was to suspend the Germain commercial demonstration project (CDP), wind down and preserve the engineering documentation for Saleski Phase 1, continue the steam injection cycle in the C-zone wells at the Saleski pilot in anticipation of the next production cycle, and prepare for the suspension of operations at the Saleski pilot later in the year.

Our financial strategy during the quarter was to continue efforts to implement cost controls towards maintaining financial capacity to protect the long-term value of our assets in this difficult commodity and capital markets environment, and to seek greater financial capacity through the strategic alternatives process announced in Laricina's third quarter report on October 31, 2014.

**First Quarter 2015 Highlights**

At Saleski:

- Completed injection cycle and began production cycle in 1C-s and 2C wells in the Grosmont C zone;
- 3D well completed production cycle and began a short injection cycle in anticipation of acquiring 4-D seismic early in the second quarter;
- 1D well continues production cycle for more than 800 days with minimal steam injection; and
- Wound down and documented work on Saleski Phase 1 after achieving 80 percent overall engineering and design.

At Germain:

- Suspended operations at the Germain CDP with focus on a safe and effective shut-in while reducing costs; and
- Suspended application for regulatory approval of future expansions at Germain.

Significant Events:

- Adam Vigna resigned from Laricina's Board of Directors;
- Reduced staff and consulting services by approximately 50 percent;
- Continued the strategic alternatives process; and
- Granted protection under the CCAA until July 7, 2015.

**Saleski Pilot**

Operations at the Saleski pilot during the first quarter focused on validating the production forecast for the Grosmont D zone. The two wells operating in the C zone completed their latest block steam cycle with the 1C-s well converted to production immediately afterwards. This was the first full injection cycle for 1C-s and after a slightly longer than forecast ramp-up period, production rates are now increasing. For the 2C well, a new electric submersible pump was installed immediately following the injection cycle. The pump had operational issues, was subsequently replaced and the well returned to expected production rates quickly. 1C-s and 2C are expected to remain on their production cycles until the pilot is suspended later in the year.

In the Grosmont D, the 3D well started its injection cycle in March, specifically preparing the well for the acquisition of 4-D seismic data. The goal was to re-saturate the steam zone in the reservoir as much as possible to create the best conditions for shooting seismic allowing the collection of the best available data. This is the first time for a targeted seismic acquisition over a fully pressured steam chamber in the D zone and given the 3D well has been intentionally offset from the C-zone wells, this data will provide important information about the Grosmont D without the influence of the underlying C zone heating. The timing of the 4-D seismic acquisition was also optimal to capture the C zone wells conformance and steam chamber growth immediately following the block steaming of the 1C-s and 2C wells. The seismic data is critical to support the ongoing understanding of the Grosmont reservoir. The 4-D seismic was acquired early in the second quarter and processing and interpretation will be completed during the second quarter.

The other operating well in the Grosmont D - 1D, has been producing for approximately 800 days without a significant injection of steam (the last small slug of steam took 11 days to inject and was completed in June 2014). These results continue to demonstrate the benefit of harvesting heat from the wells in the Grosmont C.

The Company is consulting with its joint operations partner at the Saleski pilot on specific timing but intends to suspend operations later in the year. Similar to what we have done with the Germain CDP, our goal is to preserve the long-term value of the asset while managing our financial position. In its four years of operations, the pilot has provided a wealth of information, from geology to operations, and provided the roadmap to a commercial-scale project in the Grosmont carbonate formation and we have the design for Saleski Phase 1 to show for it.

**Saleski Phase 1**

Overall engineering on Saleski Phase 1 is approximately 80 percent complete at the end of the first quarter. Work with our engineering, procurement and construction contractor was wound down and all further efforts on the project have been put on hold until our current financial situation is resolved. Engineering documentation for Saleski Phase 1 will be preserved so that continuation of the project can be reactivated and completed when market conditions allow. We have worked closely with our contractor to increase the certainty of costs and schedule by achieving a high level of engineering before construction ever begins.

**Germain**

In February 2015, the Company commenced suspending operations at the Germain CDP and the shut in of the facility was completed in March with the facility cleaned and protected to ensure equipment can be restarted in the future. This was a difficult decision but one that had to be made in order to protect our financial flexibility and the long-term value of the asset. Regardless, leading into the first quarter we had achieved many operational successes at the CDP, including peak production of 1,152 barrels per day by the end of December 2014 from four well-pairs with well performance tracking to our updated well forecasts and positive results from initial solvent testing. Work during the first quarter prior to suspension focused on refinements to steam injection and production rates, and testing the effects of gas co-injection (methane gas co-injected with steam into the reservoir).

Future phases at Germain have also been put on hold until further notice and we have suspended the application for regulatory approval for future expansions at Germain until market conditions improve and we have certainty on our restructuring.

**Corporate**

In February Adam Vigna, Canada Pension Plan Investment Board's (CPPIB) representative on Laricina's Board of Directors, resigned. CPPIB retains the contractual right to nominate one representative for election by shareholders to Laricina's Board of Directors so long as CPPIB owns greater than 10% of the basic common shares issued and outstanding. As of May 20, 2015, CPPIB held 15.3% of Laricina's outstanding common shares.

During the quarter we dramatically reduced our staff and consultants by approximately 50 percent in efforts to manage costs while sustaining our capability to manage the business. We are continuing with our plan to reduce expenditures and suspend operations at the Saleski pilot in the fall. Further staff and cost reductions will happen concurrently with the Saleski suspension.

The strategic alternatives process continued throughout the quarter. However, while under the CCAA, this process is expected to become part of the restructuring plan.

**Outlook**

Increases in oil production from shale producers, export pipeline restrictions, political risk (perceived or otherwise) with a newly elected provincial government, and general market disinterest in long-term investments in oil sands companies have increased the uncertainty of completing a financing transaction in the near term. So far in 2015 we have been faced with some tough decisions and we expect we will have to make even more as the year progresses. We continue to believe there is significant value in our assets and we are striving to preserve that for our stakeholders. For now, we remain focused on minimizing our costs while successfully navigating the CCAA process and restructuring.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
May 20, 2015

The foregoing message contains forward-looking statements. Readers are directed to the Management's Discussion and Analysis and the "Advisory" on Page 18, which also applies to the forward-looking statements in this message.

# 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) should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2015 and March 31, 2014, and the audited consolidated financial statements and MD&A contained in the Company's annual report for the year ended December 31, 2014. The financial information contained in this MD&A is presented in thousands of Canadian dollars except as otherwise noted and derived from the condensed consolidated interim financial statements prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting*.

The information in this MD&A provides management's analysis of the financial 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.

Laricina is focused on developing oil sands properties into projects, obtaining financing to support the Company's activities, retaining suitable personnel and developing innovative technologies. Two areas have been identified as core development areas: Saleski and Germain. The Company has a 60 percent working interest in Saleski and a 100 percent working interest in Germain. Bitumen production volumes and bitumen blend sales volumes are presented net to Laricina's working interest unless specifically identified as gross volumes.

**Significant Events for the First Quarter Ended March 31, 2015**

On January 2, 2015, the Company announced that it 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 senior secured notes issued thereunder. This caused such notes and payment-in-kind (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.

On March 30, 2015, the Company and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., were granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the CCAA). Protection had been obtained pursuant to an order dated March 30, 2015 with effect as of March 26, 2015 (the Initial Order) and by further order dated April 22, 2015 (the Comeback Order) by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the Court) until and including July 7, 2015.

The decision to file for creditor protection was made following the receipt of a demand from the Noteholder on March 16, 2015 for payment in full by March 26, 2015 of all amounts due under the terms of the Notes and the Indenture. The Noteholder issued a notice of intention to enforce security against the assets of the Company with its demand for payment. At the time of Laricina's application for the Initial Order under the CCAA, the Noteholder made a cross application for a receivership order which was adjourned indefinitely by the Court. On April 1, 2015, the Company made a payment to the Noteholder of $20.0 million 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 is 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.

During the first quarter of 2015, in an effort to preserve its financial flexibility, the Company suspended operations at the Germain commercial demonstration project (CDP), deferred further development of Saleski Phase 1, and reduced field and head office employees and external consulting services. In large part due to these measures, the Company did not meet the minimum average daily bitumen production volume covenant for the quarter ended March 31, 2015 and the minimum working capital covenant continues to be in breach.

**Quarterly Financial Information**

| For the three months ended March 31 | **2015** | 2014 |
|---|---|---|
| Total assets | **1,133,666** | 1,501,483 |
| Working capital (deficiency) | **(27,370)** | 252,215 |
| Cash capital expenditures | **2,880** | 16,573 |
| Bitumen blend sales revenue | **1,797** | 3,777 |
| Finance and other income | **2,372** | 5,871 |
| Net loss | **37,692** | 22,938 |
| Net loss per common share – basic and diluted | **0.54** | 0.34 |

Capital expenditures during the first quarter of 2015 were primarily related to the completion of 80 percent of the detailed engineering and design of Saleski Phase 1. Additional development of Saleski Phase 1 has been delayed by the Company to conserve capital and maintain financial capacity while the Company develops and implements a restructuring plan.

The decrease in bitumen blend sales revenue is a result of a lower average realized price for the quarter ended March 31, 2015 as the West Texas Intermediate (WTI) benchmark price decreased approximately 50 percent from the comparable period in 2014. The decrease in price was partially offset by an increase in bitumen blend sales volumes of approximately 15,000 barrels for the period ended March 31, 2015 as compared to three months ended March 31, 2014.

Finance income remained relatively consistent for each of the three-month periods ended March 31, 2015 and March 31, 2014. Other income includes fees charged to third parties for use of the Company's camp facilities and roads. Third party use of the camps was lower in the three-month period ended March 31, 2015 compared to the same period in 2014.

The net loss for the three-month period ended March 31, 2015 was higher than the corresponding period in 2014 primarily as a result of changes in deferred income tax recoveries, increased finance expenses due to recognizing interest on the Notes for the full three months and at a higher interest rate, reorganization costs incurred with the CCAA filing and a decrease in other income as a result of decreased camp use by third parties. These increases were partially offset by operational efficiencies at the Saleski pilot and lower operating expenses associated with the camps.

**Results of Operations**

| For the three months ended March 31 | **2015** | 2014 |
|---|---|---|
| Bitumen blend sales revenue | **1,797** | 3,777 |
| Royalties | **(15)** | (138) |
| Net operating revenue [1] | **1,782** | 3,639 |
| Transportation and blending expenses | **1,470** | 1,730 |
| Operating expenses | **14,360** | 19,712 |

[1] A non-IFRS measure as defined in the Non-IFRS Financial Measures section of this MD&A.

*Bitumen blend sales revenue*

In the first quarter of 2015 and 2014, Laricina derived bitumen blend sales revenue from production at the Saleski pilot and the Germain CDP. In February 2015, the Company suspended operations at the Germain CDP in an effort to maintain its financial capacity while protecting the long-term value of the asset.

| For the three months ended March 31 *(barrels)* | **2015** | 2014 |
|---|---|---|
| Saleski bitumen production volumes | **7,669** | 32,879 |
| Germain bitumen production volumes | **36,473** | 11,783 |
| Bitumen production volumes | **44,142** | 44,662 |
| Bitumen blend sales volumes | **66,967** | 52,077 |

Bitumen production volumes at Germain in the first quarter of 2015 increased as compared to the same period in 2014 primarily as a result of ongoing production ramp-up on all wells throughout 2014, partially offset by the suspension of operations in February.

The decrease in the bitumen production volumes at the Saleski pilot during the first quarter of 2015, compared to the first three months of 2014, is the result of the timing of steam injection and production cycles. During the first quarter of 2015, the Company was block steaming the C zone and expects bitumen production to increase during the second quarter of 2015. The pilot is experimental in nature and, as such, bitumen production and bitumen blend sales volumes fluctuate with the alternating cycles of steam injection and bitumen production.

Bitumen blend sales volumes increased by 29 percent compared to a one percent decrease in bitumen production volumes as a result of the sale of all bitumen blend sales inventory from the Germain CDP during the first quarter of 2015.

| For the three months ended March 31 | | **2015** | | 2014 |
|---|---|---|---|---|
| Average realized sales price per barrel (Cdn $/barrel) | **$** | **26.84** | $ | 72.52 |
| WTI (US $/barrel) | **$** | **48.63** | $ | 98.68 |
| Western Canadian Select (Cdn $/barrel) | **$** | **42.13** | $ | 83.39 |

Net operating revenue of $1.8 million during the three-month period ended March 31, 2015 decreased by $1.9 million as compared to the quarter ended March 31, 2014 primarily as a result of a decrease in the average realized sales price per barrel of bitumen blend. The decrease of $45.68 per barrel is due to a decrease in the WTI benchmark, partially offset by narrowing differentials between WTI and Laricina's average blend sales price, and a weakening of Canadian dollar pricing relative to the US dollar. Laricina's average sales price per barrel is net of terminal fees and other direct charges related to transportation.

*Royalties*

Laricina pays Crown royalties on bitumen production from the Saleski pilot and the Germain CDP based on applied royalty rates determined by the Government of Alberta. Royalties decreased by $0.1 million in first quarter 2015 compared to the same period in 2014 as a result of decreases in bitumen blend sales revenue and applied 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 of $0.3 million in transportation and blending during the quarter ended March 31, 2015 as compared to the period ended March 31, 2014, is primarily the result of a decrease in the price of diluent used in blending and the quantity of diluent required for blending purposes. These decreases are partially offset by an increase in bitumen blend sales volumes and additional costs incurred due to trucking wait times at sales terminal.

*Operating expenses*

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

Operating expenses of $14.4 million for the first quarter of 2015 were lower compared to operating expenses of $19.7 million in the same period in 2014 primarily as a result of a decrease in variable costs associated with third-party use of Laricina's camps. Operating expenses during the first quarter of 2015 decreased at the Germain CDP compared to the first quarter of 2014 primarily due the start-up costs incurred in the first quarter of 2014 partially offset by the costs required to suspend operations in February 2015. At the Saleski pilot, operating expenses decreased due to a reduction in well workovers completed in the first quarter of 2015 as compared to the first quarter of 2014.

Operating expenses are expected to decrease during the remainder of 2015 due to the suspension of operations at the Germain CDP.

**Corporate Results**

| For the three months ended March 31 | **2015** | 2014 |
|---|---|---|
| Other income | **1,827** | 5,329 |
| General and administrative expenses, net | **7,839** | 8,941 |
| Reorganization expenses | **2,543** | - |
| Depreciation and amortization | **9,908** | 7,937 |
| Finance income | **545** | 542 |
| Finance expenses | **5,633** | 1,103 |
| Net loss | **37,692** | 22,938 |

*Other income*

Other income consists of fees charged to third parties for the use of Laricina's camp facilities and roads. The decrease of $3.5 million in other income during the period ended March 31, 2015 compared to the period ended March 31, 2014 was a result of decreased third-party use of Laricina's camps.

*General and administrative expenses*

| For the three months ended March 31 | **2015** | 2014 |
|---|---|---|
| General and administrative expenses, gross | **9,178** | 7,897 |
| Share-based payments (recovery) | **(2,336)** | 2,861 |
| Capitalized costs | **997** | (1,817) |
| General and administrative expenses, net | **7,839** | 8,941 |

Gross general and administrative expenses increased from $7.9 million in the first quarter of 2014 to $9.2 million in the first three months of 2015 as a result of increased professional advisory fees and employee severance of $2.0 million, partially offset by the suspension of performance based bonus programs late in the fourth quarter of 2014 and reductions in employees and consulting services.

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. Share-based 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. The decrease in share-based payments during the three months ended March 31, 2015, as compared to the three months ended March 31, 2014, was due to forfeitures associated with employee layoffs. The forfeitures during the first quarter of 2015 resulted in a corresponding reversal of previously capitalized share-based payments.

During the first quarter of 2015, Laricina began undertaking various measures to further reduce its costs, including reductions of employees and external consultants. Employee salary increases and performance bonus programs have been suspended for 2015 and the Company has eliminated the majority of discretionary spending. The Comeback Order on April 22, 2015 approved the use of a key employee retention plan (KERP) for certain remaining employees. The KERP provides $2.3 million of retention payments to certain employees at the earlier of involuntary termination or December 31, 2015.

*Reorganization expenses*

All expenses that have resulted from reorganization activities related to the CCAA filing are reported separately from ongoing operations of the business as reorganization items. The reorganization expenses for March 31, 2015 consist of legal fees, monitoring costs, and other professional advisory fees associated with the CCAA proceedings.

*Depreciation and amortization*

The increase in depreciation and amortization expense of $2.0 million for the three months ended March 31, 2015, as compared to the first quarter of 2014, is primarily a result of ceasing the recapitalization of depreciation of certain components at the Germain CDP as the recoverable amount of the Germain CDP approximates its carrying value.

*Finance income*

Finance income consists of interest earned on cash, cash equivalents and short-term investments and remained relatively consistent in the three months ended March 31, 2015 when compared to the three months ended March 31, 2014.

*Finance expenses*

Finance expenses during the period ended March 31, 2015 were comprised of the interest on the Notes and accretion of the site restoration provision. In the first quarter of 2014, finance expenses included accretion for the site restoration provision, interest recognized on the senior secured notes and the amortization of debt issue costs with the senior secured notes. The increase in interest expenses during the first quarter of 2015 is the result of the interest on the Notes being recognized for an entire quarter and the 200 basis point increase in interest rates effective January 1, 2015. Pursuant to the Order, the Company will continue to pay interest expenses during CCAA.

*Income taxes*

During the three months ended March 31, 2015, the Company recorded a deferred income tax recovery of nil due to the material uncertainty associated with the probability of generating future taxable profits, compared to a $7.0 million deferred income tax recovery recorded in the first quarter of 2014.

*Net loss*

Laricina recorded a net loss of $37.7 million for the first quarter of 2015 as compared to a loss of $22.9 million for the same period of 2014. The increase of $14.8 million is primarily the result of differences in deferred income tax recoveries, increased finance expenses associated with the Notes, reorganization costs associated with the CCAA filing, and decreases in income from bitumen blend sales and other income. These increases were partially offset by a decrease in operating expenses as a result of less third-party use of the camps and operational efficiencies at the Saleski pilot.

**Capital Investment**

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

| For the three months ended March 31 | **2015** | 2014 |
|---|---|---|
| Exploration and evaluation assets: | | |
| Saleski | **2,501** | 5,847 |
| Germain | **-** | 9,042 |
| Other | **(171)** | 80 |
| Cash expenditures on E&E | **2,330** | 14,969 |
| Cash expenditures on PP&E | **59** | 192 |
| Cash expenditures on capitalized general and administrative expenses | **491** | 1,412 |
| Total cash capital expenditures | **2,880** | 16,573 |
| Non-cash capital expenditures [1] | **1,129** | 4,910 |
| **Total capital expenditures** | **4,009** | 21,483 |

[1] Non-cash expenditures include non-cash capitalized general and administrative expenses and changes in provisions for site restoration.

*Saleski*

Capital expenditures during the first quarter of 2015 consisted of the completion of 80 percent of the detailed engineering and design for Saleski Phase 1. Further development was deferred during the first quarter of 2015 to conserve capital while the Company focused on advancing strategic alternatives. During the first quarter of 2014, capital expenditures consisted of the continued advancement of engineering, site preparation and purchases of long-lead equipment for Saleski Phase 1, and drilling of an additional D-zone well at the Saleski pilot.

In the first quarter of 2015, Laricina's exploration expenditures consisted of program preparation for 1.1 square-km of 4-D seismic which was completed early in the second quarter. Exploration expenditures in the first quarter of 2014 included the acquisition of 1.1 square-km of 4-D seismic at the Saleski pilot.

*Germain*

Operations at the Germain CDP were suspended during the first quarter of 2015 and, as a result, there were no capital expenditures at Germain during the first quarter of 2015. Capital expenditures during the comparable period of 2014 consisted of the continued conversion of well-pairs to production and construction of a solvent recovery unit.

*Other*

Other E&E asset reductions during the first quarter of 2015 consisted of a reimbursement from the Climate Change and Emissions Management Corporation for innovation work done on the Enhanced Solvent Extraction Incorporating Electromagnetic Heating project in previous periods. In the first quarter of 2014, other E&E capital expenditures consisted of work done for the continued planning and maintenance of Laricina's oil sands leases.

*Property, plant and equipment*

Property, plant and equipment additions during the first three months of 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. The decrease during the first quarter of 2015 compared to the first quarter of 2014 is a result of the Company discontinuing the capitalization of general and administrative costs subsequent to the deferral of Saleski Phase 1 development.

*Non-cash capital expenditures*

Non-cash capital expenditures for the first quarter ended 2015 and 2014 consisted primarily of the change in rate associated with the provision for future site restoration and the capitalization of non-cash share-based payments.

**Intangible Assets**

The Company records intangible assets for the recapitalization of depreciation of certain components of E&E assets. The components consist of items that directly relate to Laricina's understanding of the reservoir and assist in the future assignment of proved reserves. The recapitalization of depreciation of certain components ceased during the quarter as the recoverable amount of the Germain cash generating unit approximates its carrying value. During the period ended March 31, 2015, $2.1 million was recapitalized for certain components of the Saleski pilot compared to $5.7 million recapitalized for certain components of the Saleski pilot and the Germain CDP in the first quarter of 2014.

**Selected quarterly information**

| *(thousands of dollars, except per share amounts)* | **Q1 2015** | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 |
|---|---|---|---|---|---|---|---|---|
| Working capital (deficiency) | **(27,370)** | 3,899 | 192,657 | 218,508 | 252,215 | 143,255 | 182,720 | 221,645 |
| Cash capital expenditures | **2,880** | 7,824 | 9,143 | 12,253 | 16,573 | 28,713 | 29,750 | 36,926 |
| Bitumen blend sales | **1,797** | 5,702 | 7,713 | 6,880 | 3,777 | 1,235 | 3,371 | 720 |
| Finance income | **545** | 746 | 758 | 889 | 542 | 671 | 805 | 966 |
| Other income | **1,827** | 4,124 | 3,110 | 1,396 | 5,329 | 3,597 | 1,191 | 1,105 |
| Net loss | **37,692** | 284,353 | 25,236 | 27,339 | 22,938 | 12,267 | 10,240 | 9,750 |
| Net loss per common share - basic and diluted | **$ 0.54** | $ 4.08 | $ 0.36 | $ 0.40 | $ 0.34 | $ 0.18 | $ 0.15 | $ 0.15 |

As a result of the Company filing for CCAA, a portion of the liabilities were classified as subject to compromise. Liabilities that are subject to compromise are disclosed in Note 1 to the condensed consolidated interim financial statements. The Notes and the acceleration payment were reclassified to current liabilities in the fourth quarter of 2014 as a result of the failure to meet the minimum average daily bitumen production volumes covenant. The increase in working capital during the first quarter of 2014 is due to the issuance of senior secured notes and warrants for net proceeds totaling $143.9 million.

Capital expenditures for the first quarter of 2015 and throughout 2014 primarily consisted of the advancement of the detailed engineering and design and purchases of long-lead equipment for Saleski Phase 1. The Company achieved 80 percent completion of the detailed engineering and design during the first quarter of 2015. Throughout 2014, capital expenditures were primarily for the fabrication, construction and commissioning of the Germain CDP.

Bitumen blend sales revenue declined in the fourth quarter of 2014 and first quarter of 2015 as a result of a decline in the average realized sale price per barrel of bitumen blend. Increase in bitumen blend sales revenue in the first quarter of 2014 was due to the initial bitumen blend sales from the Germain CDP. As a result of the experimental nature of the Saleski pilot and the alternating cycles of steam injection and bitumen production, bitumen blend sales will fluctuate.

Finance income increased in the second quarter of 2014 as a result of proceeds from the issuance of senior secured notes late in the first quarter of 2014. Decreases in finance income since the third quarter of 2014 are the result of decreases in the average funds on deposit.

Other income consists of fees charged to third parties for the use of Laricina's camp facilities and roads. Fluctuations in other income are a result of the variation in third-party use of Laricina's camps and road.

The increase in net loss during the first quarter of 2015, as compared to the first three quarters of 2014, is a result of changes in deferred income tax recoveries, increases in costs incurred from reorganization activities and interest expense on the Notes. During the fourth quarter of 2014, the Company recorded a loss on impairment of $195.2 million in relation to the Germain cash generating unit (CGU) and Burnt Lakes CGU and other long term assets. Increased net loss throughout 2014 was the result of operating expenses and depreciation associated with the Germain CDP.

**Liquidity and Capital Resources**

As at March 31, 2015, Laricina had a capital resource deficiency of $27.4 million.

| | |
|---|---|
| Cash, cash equivalents and short-term investments | 129,109 |
| Non-cash working capital | (156,479) |
| Capital resources deficiency | **(27,370)** |

The condensed consolidated 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, 2015, the Company reported a net loss of $37.7 million. At December 31, 2014 and March 31, 2015, the Company did not meet the minimum average daily bitumen production volumes covenant for the fourth quarter of 2014 and first quarter of 2015, respectively, as required in the Indenture for the senior secured notes. As a result, the Notes were reclassified to current liabilities. This reclassification subsequently caused the Company to breach the minimum working capital covenant in each of the fourth quarter of 2014 and first quarter of 2015.

On March 30, 2015, the Company announced that it was granted creditor protection under the CCAA effective March 26, 2015 following the demand for payment in full from the Noteholder. On April 22, 2015 at the comeback hearing, the Court approved the Comeback Order to, among other things, extend creditor protection until and including July 7, 2015. As a result of the Company being granted creditor protection under the CCAA, a portion of the liabilities were reclassified as subject to compromise. Effective January 1, 2015, the Notes bear interest at 13.5 percent per annum and the Company is restricted from issuing PIK notes in lieu of payment of cash interest.

The above factors result in a material uncertainty which casts significant doubt upon the Company's ability to continue as a going concern.

Over the last three months, in an effort to reduce its costs, the Company has suspended operations at the Germain CDP, deferred further development of Saleski Phase 1, and reduced the number of field and head office employees and external consultants.

*Cash, cash equivalents 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 1.9 percent. In addition, the Company holds excess cash in high-interest savings accounts and guaranteed investment certificates with interest rates ranging from 1.3 percent to 1.8 percent.

*Senior secured notes and payment-in-kind notes*

On March 20, 2014, Laricina issued $150.0 million of senior secured notes which mature on March 20, 2018 and bear interest at 13.5 percent payable quarterly. The Notes are subject to certain financial and operational covenants which are described in note 6 of the accompanying notes to the financial statements as at and for the three months ended March 31, 2015.

*Credit facility*

Laricina has a demand credit facility of $15.0 million with a major Canadian bank which has been extended to October 31, 2015. 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 totalling $6.8 million under this credit facility and no amount has been drawn.

The Company's letters of credit are to suppliers of utilities to support development at Saleski and the development and restart of Germain. If project development is cancelled, the Company will be required to reimburse up to $6.8 million of the suppliers' costs. The letters of credit of $5.7 million, $0.5 million, $0.3 million and $0.3 million are expected to be renewed on July 31, 2015, August 31, 2015, December 5, 2015 and January 16, 2016 respectively.

When the initial notes were issued on March 20, 2014, Laricina entered into an intercreditor 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, the Company is in default on the demand credit facility. The demand credit facility continues to be available for use by the Company and is secured by an equivalent cash deposit.

*Contractual obligations*

At May 20, 2015, the Company had the following contractual obligations:

| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Repayment of Notes | 152,091 | - | - | - | - | - | 152,091 |
| Operating leases | 1,639 | 592 | 243 | 21 | - | - | 2,495 |
| Other contractual obligations | 5,320 | 6,270 | 1,694 | 2,040 | 2,118 | 13,989 | 31,431 |
| **Total contractual obligations** | **159,050** | **6,862** | **1,937** | **2,061** | **2,118** | **13,989** | **186,017** |

Other contractual obligations include a rig contract, electricity purchases, natural gas purchases, employee retention programs, buy-out options on camps and other obligations. The Company continues to amend contractual obligations related to operating leases and other contractual obligations and expects further reductions.

**2015 Outlook**

At March 31, 2015 the Company has cash, cash equivalents and short-term investments of $140.2 million which is sufficient liquidity for the extended stay period granted under the Comeback Order. It is expected that the Company's operations will continue uninterrupted in the ordinary course and obligations to employees and suppliers of goods and services that are not otherwise stayed under the Initial Order will continue to be met on an ongoing basis, subject to the oversight of the Monitor. The Company is consulting with its joint operations partner at the Saleski pilot on specific timing but intends to suspend operations later in the year.

During the second quarter, Laricina will consult with the Noteholder, a self-organized ad hoc committee of shareholders, and the Monitor regarding its intended restructuring plan and other matters related thereto. The Company remains focused on minimizing costs to maintain financial capacity while progressing through the CCAA process and restructuring.

**Outstanding Share Data**

At May 20, 2015, share capital consisted of the following:

| *(thousands)* | |
|---|---|
| Common shares | 69,738 |
| Stock options | 1,113 |
| Performance share units | 1,309 |
| Warrants | 3,750 |
| Total | **75,910** |

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

**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 less royalties.

**Critical Accounting Estimates and Judgments and Policies**

A discussion of the Company's significant accounting estimates, judgments and accounting policies are described in note 3 and note 4, respectively, of the Company's audited consolidated financial statements as at and for the year ended December 31, 2014. The Company has consistently applied these same accounting policies throughout all periods presented.

**Risk Management**

The 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 2014.

**Advisory on Forward-Looking Statements**

This MD&A and interim report contains certain forward-looking statements relating to, without limitation, the Company's business and its intentions, plans, expectations, anticipated financial performance or condition, the potential results of a restructuring process and enhancement of shareholder value. 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 expectations 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. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of May 20, 2015, 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 MD&A and 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 2015** | December 31 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | **129,109** | 128,902 |
| Short-term investments | | **11,050** | 51,000 |
| Trade and other receivables | | **8,797** | 8,299 |
| Prepaid expenses and deposits | 4 | **2,727** | 1,127 |
| Inventories | | **4,585** | 5,300 |
| | | **156,268** | 194,628 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 5 | **864,389** | 870,700 |
| Property, plant and equipment | | **75,325** | 76,832 |
| Intangible assets | | **37,684** | 35,765 |
| | | **977,398** | 983,297 |
| **Total assets** | | **1,133,666** | 1,177,925 |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **6,522** | 18,638 |
| Senior secured notes and payment-in-kind notes | 1,6 | **-** | 172,091 |
| Liabilities subject to compromise | 1 | **177,116** | - |
| | | **183,638** | 190,729 |
| **Non-current liabilities** | | | |
| Site restoration provision | | **48,616** | 45,755 |
| **Total liabilities** | | **232,254** | 236,484 |
| **Shareholders' equity** | | | |
| Share capital | 9 | **1,342,861** | 1,342,679 |
| Contributed surplus | | **55,407** | 57,926 |
| Deficit | | **(496,856)** | (459,164) |
| **Total shareholders' equity** | | **901,412** | 941,441 |
| **Total liabilities and shareholders' equity** | | **1,133,666** | 1,177,925 |

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

CCAA announcement and going concern basis of presentation (Note 1)

# Condensed Consolidated Statements of Comprehensive Loss

Unaudited

| **For the three months ended March 31**<br>*(thousands of Canadian dollars, except per share amounts)* | Note | | **2015** | | 2014 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Bitumen blend sales | | | **1,797** | | 3,777 |
| Royalties | | | **(15)** | | (138) |
| **Net operating revenue** | | | **1,782** | | 3,639 |
| Other income | | | **1,827** | | 5,329 |
| | | | **3,609** | | 8,968 |
| **Expenses** | | | | | |
| Transportation and blending | | | **1,470** | | 1,730 |
| Operating | | | **14,360** | | 19,712 |
| Pre-exploration | | | **93** | | - |
| General and administrative | | | **7,839** | | 8,941 |
| Reorganization | 4 | | **2,543** | | - |
| Depreciation and amortization | 5 | | **9,908** | | 7,937 |
| | | | **36,213** | | 38,320 |
| **Results from operating activities** | | | **(32,604)** | | (29,352) |
| Finance income | | | **545** | | 542 |
| Finance expenses | 8 | | **(5,633)** | | (1,103) |
| **Net finance expense** | | | **(5,088)** | | (561) |
| **Loss before income tax** | | | **(37,692)** | | (29,913) |
| **Deferred income tax recovery** | | | **-** | | (6,975) |
| **Total loss and comprehensive loss** | | | **(37,692)** | | (22,938) |
| **Loss per common share** | 10 | | | | |
| Basic | | **$** | **(0.54)** | $ | (0.34) |
| Diluted | | **$** | **(0.54)** | $ | (0.34) |

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

## Condensed Consolidated Statements of Changes in Equity

Unaudited

| *(thousands of Canadian dollars)* | **Share Capital** | **Contributed Surplus** | **Deficit** | **Total Equity** |
|---|---|---|---|---|
| Balance at December 31, 2013 | 1,337,048 | 38,201 | (99,298) | 1,275,951 |
| Comprehensive loss | - | - | (22,938) | (22,938) |
| Share-based payments | - | 3,447 | - | 3,447 |
| Warrants issued on financing | - | 14,249 | - | 14,249 |
| Performance share units exercised | 1,478 | (1,477) | - | 1 |
| Replacement options exercised | 936 | (906) | - | 30 |
| Balance at March 31, 2014 | 1,339,462 | 53,514 | (122,236) | 1,270,740 |
| Comprehensive loss | - | - | (336,928) | (336,928) |
| Share-based payments | - | 7,567 | - | 7,567 |
| Performance share units exercised | 1,323 | (1,323) | - | - |
| Replacement options exercised | 1,894 | (1,832) | - | 62 |
| Balance at December 31, 2014 | 1,342,679 | 57,926 | (459,164) | 941,441 |
| Comprehensive loss | - | - | (37,692) | (37,692) |
| Share-based payments (recovery) | - | (2,337) | - | (2,337) |
| Performance share units exercised | 182 | (182) | - | - |
| **Balance at March 31, 2015** | **1,342,861** | **55,407** | **(496,856)** | **901,412** |

*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**<br>*(thousands of Canadian dollars)* | Note | **2015** | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Comprehensive loss | | **(37,692)** | (22,938) |
| Adjustments for: | | | |
| Depreciation and amortization | 5 | **9,908** | 7,937 |
| Equity-settled share-based payments | 9 | **(848)** | 2,456 |
| Non-cash interest payments | 8 | **-** | 53 |
| Accretion | 8 | **243** | 507 |
| Deferred income tax recovery | | **-** | (6,975) |
| | | **(28,389)** | (18,960) |
| Net change in non-cash operating working capital items | 11 | **63** | (10,363) |
| Net cash used in operating activities | | **(28,326)** | (29,323) |
| **Cash flows from investing activities** | | | |
| Property, plant and equipment and exploration and evaluation expenditures | | **(2,880)** | (17,534) |
| Proceeds from the disposal of exploration and evaluation assets | | **-** | 961 |
| Short-term investments | | **39,950** | (25,000) |
| Abandonment deposits | | **-** | (2) |
| Net change in non-cash investing working capital items | 11 | **(8,537)** | 3,298 |
| Net cash from (used in) investing activities | | **28,533** | (38,277) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issuance of senior secured notes and warrants | | **-** | 143,877 |
| Proceeds from the issuance of common shares | | **-** | 31 |
| Finance lease obligation | | **-** | (1,421) |
| Net change in non-cash financing working capital items | 11 | **-** | 1,340 |
| Net cash from financing activities | | **-** | 143,827 |
| **Net increase in cash and cash equivalents** | | **207** | 76,227 |
| **Cash and cash equivalents, beginning of period** | | **128,902** | 113,066 |
| **Cash and cash equivalents, end of period** | | **129,109** | 189,293 |

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

### 1. CCAA Announcement and Status and Going Concern Basis of Presentation

At December 31, 2014, Laricina Energy Ltd. (Laricina or the Company) 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 (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.

When the Initial Notes were issued on March 20, 2014, Laricina entered into an intercreditor agreement where an event of default on the Notes constituted a cross default on the Company's demand credit facility (note 7). As of May 20, 2015 the Company is in default on the demand credit facility.

On March 30, 2015, the Company and its wholly owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., was granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the CCAA). Protection had been obtained pursuant to an order dated March 30, 2015 with effect as of March 26, 2015 (the Initial Order) and by further order dated April 22, 2015 (the Comeback Order) by the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the Court) until and including July 7, 2015.

The decision to file for creditor protection was made following the receipt of a demand from the sole Noteholder on March 16, 2015 for payment in full by March 26, 2015 of all amounts due under the terms of the Notes and the Indenture. The Noteholder also issued a notice of intention on March 16, 2015 to enforce security against the assets of the Company with its demand for payment. At the time of Laricina's application for the Initial Order under the CCAA, the Noteholder made a cross application for a receivership order which was adjourned indefinitely by the Court. On April 1, 2015, the Company made a payment to the Noteholder of $20.0 million.

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 to provide oversight of the Company and is 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.

In connection with the commencement of creditor protection under the CCAA, Laricina has classified separately obligations into those subject to compromise on the statement of financial position. These liabilities represent the amounts expected to be allowed on known or potential claims to be resolved through the creditor protection proceedings and remain subject to future potentially material adjustments arising from activities arising while under the CCAA creditor protection. The liabilities that are not subject to the creditor protection proceedings are excluded from liabilities subject to compromise.

As at March 31, 2015, the liabilities subject to compromise by the CCAA proceedings on March 31, 2015 were comprised of the following:

| | |
|---|---:|
| Senior secured notes (note 6) | 150,000 |
| Payment-in-kind notes (note 6) | 12,350 |
| Provision for acceleration payment (note 6) | 9,741 |
| Accounts payable and accrued liabilities | 5,025 |
| **Total liabilities subject to compromise** | **177,116** |

*Going concern*

The condensed consolidated 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 financial statements may be necessary.

Laricina is a development stage oil sands company focused on developing properties into projects, obtaining financing to support the Company's activities and developing innovative technologies. Two core development areas have been identified, Saleski and Germain. The Company has a 60 percent working interest in Saleski and a 100 percent working interest in Germain. As such, the Company earns limited bitumen blend sales revenue and is dependent upon equity issuances, debt financing, asset dispositions or joint arrangements with third parties to fund future operating and investing activities.

In the fourth quarter of 2014, Laricina engaged financial advisors to assist the Company in the evaluation and pursuit of a full range of financial and strategic alternatives. While under CCAA protection, this process is expected to become part of the restructuring plan. At the end of January 2015, Laricina 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 commercial demonstration project (CDP). The Company did not meet the minimum average daily bitumen production volume covenant for the quarter ended March 31, 2015 and the minimum working capital covenant continues to be in breach.

The conditions discussed in this note indicate the existence of a material uncertainty that casts significant doubt upon the Company's ability to continue as a going concern.

## 2. Reporting Entity

Laricina Energy Ltd. was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2015 encompasses the Company and its subsidiaries.

The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 which were prepared in accordance with International Financial Reporting Standards (IFRS) and are included in the Company's annual report for 2014.

## 3. Basis of Preparation

*Statement of compliance*
The condensed consolidated interim financial statements have been prepared by the Company in accordance with International Accounting Standards (IAS) 34 *Interim Financial Reporting* and IFRS. The accounting policies applied by the Company in the condensed consolidated interim financial statements are the same as those applied by the Company in the audited consolidated financial statements as at and for the year ended December 31, 2014.

On May 20, 2015, these condensed consolidated interim financial statements were approved for release to shareholders by the Board of Directors.

*Basis of measurement*
The condensed consolidated interim financial statements have been prepared on the historical cost basis. The methods used to measure fair value are included in the Company's annual report for 2014.

Cash and cash equivalents are comprised of cash balances, guaranteed investment certificates 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 are classified as loans and receivables, while trade and other payables are classified as other financial liabilities. The fair values approximate their carrying value due to the short-term nature of these instruments. Senior secured notes are carried at amortized cost determined using the effective interest rate method. PIK notes are classified as other financial liabilities.

*Functional and presentation currency*
The condensed consolidated interim financial statements are presented in Canadian dollars, the Company's functional currency.

*Use of estimates and judgments*

The nature of critical accounting estimates and judgments for Laricina remain unchanged from those included in the Company's annual report for 2014.

### 4. Retainers and Reorganization Expenses

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

The reorganization expenses of $2.5 million incurred during the three months ended March 31, 2015 were comprised of legal fees, monitoring costs, and professional advisory fees associated with the CCAA proceedings.

### 5. Exploration and Evaluation Assets

| | |
|---|---|
| **Cost** | |
| Balance at December 31, 2014 | 1,127,157 |
| Additions during the period | 3,950 |
| **Balance, March 31, 2015** | **1,131,107** |
| **Depreciation** | |
| Balance, December 31, 2014 | (256,457) |
| Depreciation for the period | (10,261) |
| **Balance, March 31, 2015** | **(266,718)** |
| **Carrying amounts** | |
| As at December 31, 2014 | 870,700 |
| **As at March 31, 2015** | **864,389** |

### 6. Senior Secured Notes and Payment-In-Kind Notes

| | |
|---|---|
| Senior secured notes | 150,000 |
| Payment-in-kind notes | 12,350 |
| Provision for acceleration payment | 9,741 |
| **Balance, March 31, 2015** | **172,091** |

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 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 are 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 ending December 31, 2014 and each fiscal quarter thereafter; and
- Specified capital and operating expenditures commencing in the fiscal quarter ending June 30, 2014.

In addition, the Notes are subject to certain exceptions and qualifications which limit 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, the Company did not meet the minimum average daily bitumen production volume covenant for the fourth quarter of 2014. As a result, the Notes were reclassified to current liabilities as the Noteholder had the right to demand repayment of the debt at any time. This reclassification led to a second event of default in relation to the minimum working capital covenant. Upon an event of default, the Notes bear interest at a rate of 13.5 percent per annum and the Company is restricted from issuing PIK notes in lieu of payment of interest.

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 the acceleration payment (the Acceleration Payment) amount would become immediately payable. The Acceleration Payment amount is calculated as 6.0 percent of the principal amount of the Notes outstanding on the acceleration date if the acceleration date occurs prior to March 20, 2016. A provision of $9.7 million has been recorded in accrued liabilities as of December 31, 2014 for the Acceleration Payment associated with the Notes.

The Company did not meet the minimum average daily bitumen production volume covenant for the quarter ended March 31, 2015 and the minimum working capital covenant continues to be in breach.

On April 1, 2015, the Company issued a $20.0 million payment to the Noteholder.

Under the Indenture, on or after March 20, 2015, Laricina has the option to redeem the principal amount of the Notes at a price of 103 percent, 102 percent and 101 percent plus accrued and unpaid interest in the twelve-month periods beginning on March 20, 2015, 2016 and 2017, respectively. This option is applicable when the Company is no longer in default.

## 7. Credit Facility

Laricina has a demand credit facility of $15.0 million with a major Canadian chartered bank which has been extended to October 31, 2015. 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, 2015, the Company had issued letters of credit totalling $6.8 million under this credit facility and no amount had been drawn.

When the Initial Notes were issued on March 20, 2014, Laricina entered into an intercreditor agreement where in an event of default on the Notes constituted a cross default on the Company's demand credit facility. Accordingly as of May 20, 2015, the Company is in default on the demand credit facility. The demand credit facility continues to be available for use by the Company and is secured by an equivalent cash deposit.

## 8. Finance Expenses

Finance expenses for the periods ended March 31 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Interest on the Notes | **5,390** | 520 |
| Accretion of site restoration obligation | **243** | 507 |
| Amortization of debt issuance costs | **-** | 23 |
| Amortization of equity-settled debt issue costs | **-** | 53 |
| | **5,633** | 1,103 |

## 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, December 31, 2014 | 69,732 | 1,342,679 |
| Performance share units exercised | 5 | 182 |
| **Balance, March 31, 2015** | **69,737** | **1,342,861** |

*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.

| | **Number** (thousands) | | **Weighted Average Exercise Price** |
|---|---|---|---|
| Outstanding, December 31, 2014 | 1,642 | $ | 28.12 |
| Expired | (149) | | 32.50 |
| Forfeited | (236) | | 28.92 |
| **Outstanding, March 31, 2015** | **1,257** | **$** | **27.45** |
| **Exercisable, March 31, 2015** | **912** | **$** | **28.07** |

For the three months ended March 31, 2015, a compensation recovery of $0.7 million has been recognized for stock options that have been forfeited, compared to a compensation cost of $0.3 million for stock options that had been granted in the three-month period ended March 31, 2014. For the period ended March 31, 2015, $0.5 million has been reversed from previously capitalized grants due to the forfeiture of the underlying grant, compared to the $0.1 million capitalized in the three months ended March 31, 2014.

*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 the grant. For each PSU exercised, the holder will receive one common share.

| | **Number** (thousands) | | **Weighted Average Exercise Price** |
|---|---|---|---|
| Outstanding, December 31, 2014 | 1,658 | $ | 0.01 |
| Exercised | (5) | | 0.01 |
| Expired | (1) | | 0.01 |
| Forfeited | (335) | | 0.01 |
| **Outstanding, March 31, 2015** | **1,317** | **$** | **0.01** |
| **Exercisable, March 31, 2015** | **574** | **$** | **0.01** |

## 9. Share Capital (continued)

For the three months ended March 31, 2015, a compensation recovery of $1.6 million has been recognized for PSUs that have been forfeited, compared to a compensation cost of $3.1 million for PSUs that had been granted in the three-month period ended March 31, 2014. For the period ended March 31, 2015, $1.0 million has been reversed from previously capitalized amounts due to the forfeiture of the underlying grant, compared to the $0.6 million capitalized in the three months ended March 31, 2014.

*Warrants*

In conjunction with the issuance of the Initial Notes, the Company issued warrants on a one-time basis to the Noteholder. The warrants have exercise prices ranging from $15.00 to $20.00 per warrant, an expiry date of March 20, 2019 and vested immediately.

| | **Number** (thousands) | | **Weighted Average Exercise Price** |
|---|---|---|---|
| Outstanding, December 31, 2014 | 3,750 | $ | 18.00 |
| **Outstanding, March 31, 2015** | **3,750** | **$** | **18.00** |
| **Exercisable, March 31, 2015** | **3,750** | **$** | **18.00** |

For the three-month period ended March 31, 2015, a nil finance expense ($0.1 million in 2014) has been recognized for warrants that have been issued.

*Share Appreciation Rights*

The Company has a share appreciation rights plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of share appreciation rights (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.

| | **Number** (thousands) | | **Weighted Average Exercise Price** |
|---|---|---|---|
| Outstanding, December 31, 2014 | 24 | $ | 28.50 |
| Expired | (24) | | 28.50 |
| **Outstanding, March 31, 2015** | **-** | **$** | **-** |

All SARs were granted to employees directly involved in field activities. For the three-month period ended March 31, 2015, a compensation recovery of $0.2 million (compensation recovery of $0.3 million in 2014) has been recognized for SARs that were expired. At March 31, 2015 and at December 31, 2014, the Company did not recognize an obligation for SARs that had vested.

## 10. Loss per Share

*Basic loss per share*

The calculation of basic loss per share at March 31, 2015 was based on the loss attributable to common shareholders of $37.7 million ($22.9 million in 2014) and the weighted-average number of common shares outstanding during the three-month periods ended March 31, calculated as follows:

| *(thousands)* | **2015** | 2014 |
|---|---|---|
| Issued common shares at beginning of period | **69,732** | 67,762 |
| Effect of performance share units exercised | **1** | 12 |
| Effect of replacement options exercised | **-** | 20 |
| Weighted average common shares outstanding (basic) | **69,733** | 67,794 |

*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 $0.54 for the three-month period ended March 31, 2015, compared to a basic and diluted loss per share of $0.34 for the three-month period ended March 31, 2014.

## 11. Supplemental Cash Flow Disclosures

The following table reconciles the net changes in non-cash working capital from the statement of financial position to the cash flow statement as at March 31:

| | **2015** | 2014 |
|---|---|---|
| Operating activities | | |
| Trade and other receivables | **1,415** | (5,995) |
| Prepaid expenses and deposits | **(1,654)** | (338) |
| Inventories | **637** | (1,038) |
| Trade and other payables | **(335)** | (2,992) |
| Cash provided by (used in) operating activities | **63** | (10,363) |
| | | |
| Investing activities | | |
| Trade and other receivables | **(1,913)** | (594) |
| Prepaid expenses and deposits | **54** | 309 |
| Inventories | **78** | 15 |
| Trade and other payables | **(6,756)** | 3,568 |
| Cash (used in) provided by investing activities | **(8,537)** | 3,298 |
| | | |
| Financing activities | | |
| Trade and other payables | **-** | 1,340 |
| Cash provided by financing activities | **-** | 1,340 |

## Corporate Information

***Senior Management***

Glen C. Schmidt
President and CEO

James R. Hand
Senior Vice President Operations and COO

Derek A. Keller
Vice President Production

Diane T. Koenig
Vice President Finance and Controller

David Safari
Vice President Facilities

Marla A. Van Gelder
Vice President Corporate Development

***Directors***

Brian K. Lemke [1, 2]
Independent Investor

Ian D. Bruce [2, 4]
Independent Investor

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

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

Gordon J. Kerr [2C, 4]
Independent Businessman

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

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

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

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

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