LARICINA ENERGY LTD.

2014 SECOND QUARTER INTERIM REPORT

Progress and results achieved during the first half of the year have shaped our operational plans for the balance of 2014. During the second quarter, we continued to confirm the commerciality of the Grosmont Formation with new well data from the Saleski pilot; and we established base steam-assisted gravity drainage (SAGD) type curves for the Grand Rapids Formation at the Germain Commercial Demonstration Project (CDP). Targeting commercial performance at both projects continues to refine the path to commercial-scale operations.

Second Quarter 2014 Highlights

- At Germain:
  - Continued production ramp-up from well-pairs 8, 9 and 10;
  - Submitted regulatory application for re-drilling of select wells in the basal water zone; and
  - Successfully completed the planned facility turnaround focusing on post start-up adjustments and commissioning of the solvent recovery unit.

- At Saleski:
  - Began production from our newest Grosmont D-zone well (3D) drilled in the first quarter;
  - 3D achieved similar calendar day oil rate (CDOR) with lower steam-to-oil ratio (SOR) compared to our benchmark Grosmont C-zone well (2C) during its first production cycle. Reached peak production rate of 820 gross barrels per day;
  - Completed acidization on the 1C sidetrack well (1C-s);
  - Continued fabrication ahead of schedule of the Phase 1 Once-Through Steam Generators (OTSG's); and
  - Phase 1 detailed engineering is approximately 50 percent complete at the end of the second quarter. Entered into cost plus fee contract with international engineering, procurement and construction (EPC) firm for engineering, procurement, fabrication and construction of Phase 1. Sanctioning of Phase 1 remains scheduled for the first quarter 2015 subject to financing.

- Corporate:
    - Subsequent to the quarter, we welcomed Diane Koenig to Laricina's senior management team as Vice President Finance and Controller; and
    - Incurred capital expenditures of $12.3 million with quarter-end working capital of $218.5 million.

Germain

The Germain CDP was designed and built to provide a learning environment in order to optimize well and operational plans for full commercial expansion. Our intent is to learn and improve on a small scale before moving to large-scale operations. The CDP's current priorities are testing and proving base SAGD recovery and production strategies for producer wells placed in the bitumen zone; evaluating solvent injection and recovery; and testing SAGD recovery and production strategies for producer wells placed in the basal water zone.

Producers in the bitumen zone

We are achieving our first priority by proving performance and growing production from bitumen zone wells as production ramps up in well-pairs 8, 9 and 10. Well-pair 7 is in the circulating phase to establish communication between the producer and injector wells prior to converting to production which we expect in the third quarter. The conversion to production for well-pair 7 is taking slightly longer than previously forecast but is still expected to be within the range of circulating days experienced with our previous wells.

We are continuing with our co-injection of methane gas with steam into the reservoir in various wells to manage the upper transition zone and chamber pressure differentials with the intent to improve the produced fluid to steam ratio. The response has been positive as we are seeing increased production and a reduction in the SOR. Bitumen production for well-pairs 8, 9 and 10 at the end of the quarter was approximately 600 barrels per day, averaging approximately 200 barrels per day per well-pair.

Our second priority, the application of solvent-cyclic SAGD (SC-SAGD) is expected to begin in stages throughout the third quarter following ramp-up and stabilization of production. We have been preparing the facilities to be SC-SAGD ready having recently commissioned the solvent recovery unit. The use of solvents has the potential to increase production rates while decreasing the amount of steam required per barrel of bitumen produced.

Producers in the basal water zone

Steaming and further start-up procedures have been halted for well-pairs 3, 5 and 6 as we revise our development plans. We have not seen the production response we anticipated from the basal water wells we believe as a result of a thin tight streak of mudstone between the producer and injector wells creating a barrier to the flow of bitumen.

In June, we filed an application with the regulators outlining a re-drill program for the well-pairs in the basal water zone. We plan to initially re-drill well-pair 1 into the bitumen zone to set an independent SAGD baseline and use as a control well in comparison to the four well-pairs in the bitumen zone that will be converted to SC-SAGD. Interpretation of the shut-in basal zone well-pairs' historical performance data is ongoing together with additional geological review which is supporting the re-drill plan for well-pair 5 above the mudstone tight streak. The remaining re-drills and future sustaining well-pairs are planned to be added over time and as steam is available at the facility with placement either in the bitumen zone or basal water zone dependent upon achieving operational and production milestones with well-pair 5. We expect regulatory approval for the re-drills to be granted later this year. Understanding the basal water zone and its incremental contribution to ultimate recovery of the bitumen resource at Germain is our third priority at the CDP.

A scheduled six-day plant turnaround took place in June to perform design modifications to the hot lime softener, improving performance of the water treatment process and quality of water recycled. The turnaround was done safely and successfully with the plant and well-pairs production re-started immediately after completion.

The production profile for the Germain CDP has been revised to reflect a slower than forecast production ramp-up from the wells in the bitumen zone and the absence of production from shut-in wells in the basal water zone. We are targeting an average production rate of approximately 1,000 barrels per day for the month of December 2014 down from our previous target of 2,350 barrels per day. We still plan to plateau at 3,750 barrels per day of bitumen production as our target capacity utilization; however the timing of reaching both our year-end target and long term capacity utilization has shifted and are dependent on the timing of well-pair re-drills, SC-SAGD performance, and available financing for future sustaining well-pairs.

Germain Expansion

Regulatory approval for Germain's future phases 2 - 4 is expected late in early 2015 as we proactively work with the Alberta Energy Regulator (AER) to complete the regulatory requirements. We continue to prepare responses to a second request for supplemental information from the AER which we expect to complete late in the third quarter. We are actively working to resolve a stakeholder concern and have requested the AER initiate the alternative dispute resolution process to address this outstanding concern.

Saleski

The Saleski pilot continues to provide the path to commerciality for the Grosmont Formation. Our well configuration consists of placing two wells – one in the Grosmont C zone and the other in the Grosmont D zone – and to operate both wells using cyclic-SAGD (C-SAGD), targeting combined bitumen production of 600 gross barrels per day at a SOR of 3.0. Repeatable, predictable production and commercial rate SORs from our 2C well at the pilot, along with positive early results from our recently drilled 3D well continue to demonstrate this target is achievable and supports a full-scale Phase 1 development.

Grosmont D

3D was drilled similarly to 2C which is the well we use as a benchmark for Saleski Phase 1. Both wells were drilled balanced and acidized prior to production. The first steam cycle for 3D commenced in late May then converted to production mid-June. 3D achieved peak production of 820 gross barrels per day and a similar CDOR with a lower SOR in this first cycle compared to 2C's first production cycle, outperforming our forecast. 3D was placed on its second steam cycle early July and has recently returned to the production phase. The commensurate production cycle is expected to be longer than the first which is typical in cyclic operations as the steam injected volume was greater and the chamber grows and increases the volume of rock heated and hence a longer production cycle. We expect to continue this process until full plant steam capacity will be required for the next block steaming phase for 1C-s and 2C.

While based on an early well design, our 1D well in the Grosmont D zone continues its production cycle benefiting from the heat below in the Grosmont C. Periodic short steam injection periods have helped improve well connectivity to the reservoir and in driving the cycle SOR lower. 1D has been on production for approximately 500 days at a cycle SOR of 2.3.

Although early in the 3D well's performance, combined with the learnings from the earlier Grosmont D wells we are happy with the progress we have made in understanding the Grosmont D zone. This zone contains a significant amount of Laricina's Grosmont bitumen resource and results from the pilot's D-zone wells has given us confidence in our commercial plan in developing the C and D zones concurrently.

Grosmont C

1C-s, the sidetrack well drilled late in 2013 to replicate the drilling and production success of 2C, was acidized late in this production cycle in June. We tested the well prior to acid stimulation to establish baseline production results. We expect the full benefit of the acid stimulation will not be understood until the next production cycle forecasted to commence in the first quarter of 2015.

The 2C well – our design basis for Saleski Phase 1 – continues to track its production forecast and validate the commercial design for the Grosmont.

In total, five wells were on production at the pilot at various times during the second quarter, achieving average production of 586 gross barrels per day with the majority of the production contributed by 1C-s and 2C. Our current schedule has the C-zone wells in a block steaming cycle starting late in the third quarter or early in the fourth quarter with production back on-line at the beginning of 2015. Residual heat stored in the Grosmont D should allow the D-zone wells to continue to produce during this time. Average production of approximately 520 gross barrels per day is expected from the Saleski pilot for the 2014 year.

Saleski Phase 1

Progress on Saleski Phase 1 continues to advance with engineering design for the facility and fabrication of the OTSG's on schedule. At June 30, 2014, approximately 50 percent of engineering was complete. We are targeting 60 percent of the engineering to be complete by the end of the third quarter and 80 percent engineering to be completed by year-end. We continue to optimize the design of the facility and the wells with the benefit of continuous information from the pilot. We have entered into a cost plus fee contract with our EPC firm for the engineering, procurement, fabrication, and construction of the project. In accordance with our project application amendment filed last year, we received regulatory approval to include four Grosmont D-zone wells along with the previously planned Grosmont C-zone wells. Project sanctioning remains targeted for the first quarter 2015, pending financing.

Corporate

With a wealth of experience in the oil and gas industry, Diane Koenig has joined our senior management team as Vice President Finance and Controller. She most recently served as Chief Financial Officer for a privately held oilfield services company and has also held several senior management positions throughout her career. We welcome Diane to the team and look forward to her contributions.

Working capital at the end of the quarter was $218.5 million after $12.3 million of capital expenditures in the second quarter, and net operating costs and cash general and administrative expenses. Forecasted working capital for year-end 2014 is approximately $150 million. Of the full-year 2014 capital and operating spending program of about $147 million, we have an estimated $80 million left to spend with minimal spending commitments outside of ongoing operations at Saleski and Germain, and general and administrative costs.

Outlook

Attracting capital in support of the development of Saleski Phase 1 remains a priority. As we continue to evaluate our financing options, we are driven by the need to maximize value for our shareholders through achieving commercial production rates, taking advantage of economies of scale at our projects, and subsequently, generating cash flow. We continue to monitor and evaluate the merits of a public offering as a possible source of capital, but recognize that public markets may not match our financing needs or timeline. Beyond a public offering, we continue to evaluate other sources of financing, including joint ventures and private equity.

Positive operating results along with the scale and uniqueness of Laricina's assets continue to provide a foundation on which to grow the company. While Germain has had early challenges, the project's value and potential is being validated. Similar to what we have achieved at the Saleski pilot, we are using the demonstration project at Germain to prove or disprove assumptions and adjust accordingly. At Saleski, these adjustments have demonstrated commercial well performance in both the Grosmont C and D zones. We anticipate similar positive results and progress at Germain.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
July 24, 2014

The foregoing message contains forward-looking statements. Readers are directed to the Management's Discussion and Analysis and the "Advisory" on page 7, which also applies to the forward-looking statements in this message.

Management's Discussion and Analysis

July 24, 2014

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 six months ended June 30, 2014 and June 30, 2013, and the audited consolidated financial statements and MD&A contained in the Company's annual report for the financial year ended December 31, 2013. The financial information presented in this MD&A has been 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. Readers are directed to the following "Advisory on Forward-Looking Statements" which applies to this MD&A and interim report. Actual results or events may vary materially from those anticipated.

Laricina is focused on acquiring prospective oil sands properties, developing properties into projects, financing, attracting suitable personnel and developing innovative technologies. Two areas have been identified as near-term commercial projects, Saleski and Germain. The Company has a 60 percent working interest in Saleski and a 100 percent working interest in Germain.

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 the intentions, plans, expectations, anticipated financial performance or condition. Forward-looking statements may include, but are not limited to, statements concerning estimates of contingent, prospective and recoverable resources, reserves and total potential production volumes; statements relating to the continued advancement of the Company's projects; and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "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 July 24, 2014, 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, but are not limited to:

the Company's ability to secure financing; geological conditions relating to the Company's properties; the impact of regulatory changes especially as such relate to royalties, taxation and environmental changes; the impact of technology on operations and processes, and the performance of new technology expected to be applied or utilized by the Company; labour shortages; supply and demand metrics for oil and natural gas; the impact of pipeline capacity, upgrading capacity and refinery demand; general economic, business and market conditions; and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities, contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements contained in this MD&A and interim report and, 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 contained in this MD&A and interim report are expressly qualified by this advisory and disclaimer.

Highlights for the Second Quarter Ended June 30, 2014

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars, except per share amounts)	**2014**	2013	**2014**	2013
Total assets	**1,478,016**	1,352,343	**1,478,016**	1,352,343
Working capital	**218,508**	221,645	**218,508**	221,645
Capital expenditures (cash)	**12,253**	36,926	**28,826**	115,923
Net operating revenue(1)	**6,630**	708	**10,269**	2,215
Finance and other income	**2,285**	966	**8,156**	2,127
Net loss	**(27,339)**	(9,750)	**(50,277)**	(20,099)
Net loss per common share – basic and diluted	**(0.40)**	(0.15)	**(0.73)**	(0.30)

(1) Net operating revenue is defined as bitumen blend sales less royalties.

Laricina continues to demonstrate positive production results from both the Germain commercial demonstration project (CDP) and the Saleski pilot. Net production volumes exceeded 113,000 barrels in the first six months of 2014 as production continues to ramp up at Germain and ongoing results at the Saleski pilot reinforce the commerciality of the Grosmont Formation.

At the Germain CDP net production volumes increased from 11,783 net barrels during the first quarter of 2014 to 36,355 net barrels in the second quarter primarily from three well-pairs located in the bitumen zone. Laricina expects production volumes to continue to ramp up throughout the remainder of the year.

Bitumen production volumes from the Grosmont C zone continue to demonstrate repeatable and predictable performance, reinforcing Laricina's expectations that the C zone is capable of producing at commercial rates. An additional Grosmont D-zone well was drilled in the first quarter of 2014 and commenced production during the second quarter. This new well attained a peak production rate of 820 gross barrels per day during its initial production cycle.

Detailed engineering and design for Saleski Phase 1 of 10,700 barrels per day continued to advance throughout the first half of 2014. At June 30, 2014, approximately 50 percent of the engineering has been completed and fabrication of the Once-Through Steam Generators continued on schedule.

On March 20, 2014, the Company closed a debt issuance of senior secured notes totaling $150.0 million which will allow Laricina to manage operations at the Saleski pilot and Germain CDP advance detailed engineering and design for Saleski Phase 1.

Operational Results

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars)	**2014**	2013	**2014**	2013
Bitumen blend sales revenue	**6,880**	720	**10,657**	2,255
Royalties	**(250)**	(12)	**(388)**	(40)
Net operating revenue	**6,630**	708	**10,269**	2,215
Transportation and blending expenses	**3,964**	464	**5,694**	1,471
Operating expenses	**17,549**	5,841	**37,261**	11,868

Bitumen blend sales revenue

Net operating revenue during the first half of 2014, resulted from ongoing production at the Saleski pilot and initial bitumen production volumes at the Germain CDP. Bitumen production and bitumen blend sales at the Germain CDP occurred early in the first quarter of 2014 and are expected to increase as production continues to ramp-up.

	Three Months Ended June 30		**Six Months Ended June 30**	
(barrels)	**2014**	2013	**2014**	2013
Saleski net production volumes	**31,994**	8,377	**64,873**	31,447
Germain net production volumes	**36,355**	-	**48,138**	-
Net production volumes	**68,349**	8,377	**113,011**	31,447
Net bitumen blend sales volumes	**88,599**	10,596	**140,676**	39,466

Bitumen production and bitumen blend sales volumes increased during the first half of 2014 when compared to the first half of 2013 due to the start-up of the Germain CDP and an increase in volumes at the Saleski pilot. Germain bitumen blend sales volumes during the first six months of 2014 exceeded 62,000 net barrels.

At the Saleski pilot, bitumen production and bitumen blend sales volumes increased as a result of higher production rates, increased number of producing days, and incremental production from both the new Grosmont D-zone well drilled in the first quarter and the Grosmont C-zone sidetrack well drilled in the fourth quarter of 2013.

The Saleski pilot is experimental in nature and alternates between cycles of steam injection and bitumen production, and as a result bitumen production and bitumen blend sales volumes are expected to fluctuate.

	Three Months Ended June 30		**Six Months Ended June 30**	
	2014	2013	**2014**	2013
Average blend sales price (Cdn $/barrel) per barrel	**$ 77.66**	$ 67.95	**$ 75.75**	$ 57.14
West Texas Intermediate (WTI) (US $/barrel)	**$ 102.99**	$ 93.98	**$ 99.52**	$ 94.18
Western Canadian Select (Cdn $/barrel)	**$ 90.44**	$ 76.80	**$ 84.43**	$ 69.84

Net operating revenue during the first six months of 2014 as compared to the same period of 2013 increased due to higher bitumen blend sales volumes and an increase in the average realized price per barrel of bitumen blend. The increase in the average realized price per barrel is a result of an increase in WTI and a narrowing of the differentials between WTI and Laricina's average blend sales price.

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

Royalties

Crown royalties are paid on bitumen production from Saleski and Germain based on applied royalty rates determined by the Government of Alberta. The increase in royalties during the first six months of 2014 as compared to 2013 is due to an increase in bitumen blend sales revenue and an increase in applied royalty rates as a result of a higher WTI benchmark.

Transportation and blending expenses

Transportation and blending expenses include the cost of diluent used in blending with the produced bitumen and the cost of transporting the bitumen blend volumes to the sales terminals. The increase in transportation and blending expenses in the first six months of 2014 as compared to the first six months of 2013 is the result of increased bitumen production and bitumen blend sales; an increase in the price of diluent; and the quantity of diluent required for blending purposes due to the start-up of the Germain CDP.

Operating expenses

The Company began recognizing operating expenses related to the Germain CDP corresponding with first bitumen production and blend sales. Prior to initial sales these expenses were capitalized. At the Saleski pilot, operating expenses during the first half of 2014 decreased compared to the same period in 2013 as a result of the turnaround completed in the second quarter of 2013.

Other operating expenses are related to the use of Laricina's camps by third parties and the maintenance of the Chip Lake access road. The usage of Laricina's camps by third parties has increased during 2014.

Capital Investment

Capital investment includes costs related to exploration and evaluation assets, property, plant and equipment, and intangible assets.

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars)	**2014**	2013	**2014**	2013
Exploration and evaluation assets:				
Land	**40**	43	**93**	275
Exploration	**(19)**	648	**3,444**	15,295
Development	**10,787**	26,210	**22,086**	80,697
Other	**3,189**	3,913	**7,848**	8,640
Capitalized general and administrative	**1,046**	4,866	**2,863**	10,265
	15,043	35,680	**36,334**	115,172
Property, plant and equipment	**448**	930	**640**	1,754
Intangible assets	**5,939**	1,746	**11,608**	3,481
Capital asset additions	**21,430**	38,356	**48,582**	120,407
Capital expenditures (cash)	**12,253**	36,926	**28,826**	115,923

Capital asset additions during the first half of 2014 include the continued advancement of Saleski Phase 1; drilling and completion of an additional D-zone well at the Saleski pilot; construction of the solvent recovery unit at the Germain CDP; and completion of the 2013-2014 winter exploration and development drilling program.

Exploration and evaluation assets

Land

Land additions during the first six months of 2014 and 2013 were for the continued planning and maintenance of Laricina's oil sands properties.

Exploration

Exploration activities during the first half of 2014 included the acquisition of 1.1 square-km of 4-D seismic at the Saleski pilot, 1.6 square-km of 4-D seismic at Germain, and one exploration well drilled at Germain. During the first half of 2013, exploration activities included the acquisition of 23.5 square-km of 3-D seismic at Burnt Lakes, 5.1 square-km of 3-D seismic at Conn Creek, 1.1 square-km of 4-D seismic at Saleski; and the drilling of three exploration wells at Saleski.

Development activities

The majority of expenditures during the first six months of 2014 were for the advancement of Saleski and Germain.

	Six Months Ended June 30	
(thousands of dollars)	**2014**	2013
Saleski	**13,123**	11,419
Germain	**8,961**	68,709
Other	**2**	569
	22,086	80,697

Development activities during the six month period ended June 30, 2014 included detailed engineering, site preparation and purchase of long-lead equipment for Saleski Phase 1; drilling and completion of an additional D-zone well at the Saleski pilot; and the conversion of well-pairs from steaming to production and construction of a solvent recovery unit at the Germain CDP.

During the six month period ended June 30, 2013, development activities included the substantial construction of the Germain CDP which included the completion of the remaining four well-pairs, commencement of the commissioning and initial steam injection in two of the well-pairs. Development activities for Saleski Phase 1 during this same period included front-end engineering and completion of the 2012-2013 winter delineation drilling program which included six wells.

Other

Other capital activity during the first half of 2014 was primarily related to provisions for future site restoration. During the same period of 2013 other capital activities included regulatory consultation, progress on research and development projects and provisions for future site restoration.

Property, plant and equipment

Property, plant and equipment additions during the first six months of 2014 and 2013 were primarily the addition of corporate assets related to information technology.

Intangible assets

During the six month period ended June 30, 2014, Laricina recorded intangible assets of $11.6 million for the recapitalization of depreciation of certain components of the Saleski pilot and the Germain CDP. The components consist of items that directly relate to the Company's understanding of the reservoir and assist in the future assignment of proved reserves such as the development wells. These costs will be recapitalized until the related reserves are recognized. For the six month period ended June 30, 2013, $3.5 million was recapitalized for certain components of the Saleski pilot.

Corporate Results

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars)	**2014**	2013	**2014**	2013
General and administrative expenses, net	**9,578**	7,008	**18,519**	14,562
Finance income	**889**	966	**1,431**	2,127
Other income	**1,396**	1,105	**6,725**	2,668
Net loss	**(27,339)**	(9,750)	**(50,277)**	(20,099)

General and administrative expenses

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars)	**2014**	2013	**2014**	2013
General and administrative expenses, gross	**8,593**	9,976	**16,490**	20,383
Share-based compensation costs	**2,031**	1,898	**4,892**	4,444
Capitalized costs	**(1,046)**	(4,866)	**(2,863)**	(10,265)
General and administrative expenses, net	**9,578**	7,008	**18,519**	14,562

Gross general and administrative expenses decreased during the first half of 2014 as compared to the same period in 2013 primarily due to a decrease in external consulting services. Capitalized general and administrative costs consist of expenses directly related to project exploration and development activities. As projects progress towards commercialization, the amount of general and administrative costs capitalized will decline.

Subsequent to the second quarter of 2014, Diane Koenig joined Laricina as Vice President Finance and Controller.

Finance and other income

Finance income decreased during the six month period ended June 30, 2014 when compared to the six month period ended June 30, 2013 primarily due to a decrease in the average funds on deposit, partially offset by an increase in the average interest rate received.

Other income during the six month periods ended June 30, 2014 and June 30, 2013 relates to fees charged to third parties for the usage of Laricina's camp facilities and roads.

Finance costs

Finance costs during the first half of 2014 include interest recognized on the senior secured notes, accretion for the site restoration provision, and amortization of debt issue costs including the costs of warrants issued in conjunction with these notes. Finance costs for the same period in 2013 consisted of accretion for the site restoration provision and interest associated with a finance lease.

Depreciation and amortization

Depreciation and amortization of $16.0 million during the first six months of 2014 increased by $10.6 million as compared to the first six months of 2013. The increase is a result of the commencement of depreciation of certain components of the Germain CDP.

Net loss

The Company recorded a net loss of $27.3 million and $50.3 million, respectively, for the three and six month periods ended June 30, 2014 compared to a net loss of $9.8 million and $20.1 million, respectively, for the same periods in 2013. The increases in net loss is primarily due to operating expenses for the Germain CDP which are no longer being capitalized, depreciation and amortization on costs associated with the Germain CDP, and finance costs associated with the senior secured notes. These increases are partially offset by additional net operating revenue associated with the incremental bitumen blend sales from the Germain CDP and other income from third-party usage of Laricina's camp facilities and roads.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q2 2014**	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Working capital	**218,508**	252,215	143,255	182,720	221,645	257,736	345,808	442,272
Capital asset additions	**12,253**	16,573	79,532	32,054	38,356	82,051	89,983	58,505
Net operating revenue	**6,630**	3,639	1,190	3,216	708	1,507	2,092	1,885
Finance and other income	**2,285**	5,871	4,268	1,996	2,071	2,724	2,154	4,086
Net loss	**(27,339)**	(22,938)	(12,267)	(10,240)	(9,750)	(10,349)	(8,600)	(7,341)
Net loss per common share - basic and diluted	**$ (0.40)**	$ (0.34)	$ (0.18)	$ (0.15)	$ (0.15)	$ (0.15)	$ (0.13)	$ (0.11)

Working capital increased in the first quarter of 2014 due to the issuance of senior secured notes and warrants for net proceeds totaling $143.9 million.

Capital asset additions during the first and second quarter of 2014 decreased due to the completion of the Germain CDP late in 2013 and the recognition of the provision for future site restoration related to the Germain CDP during the fourth quarter of 2014. The fourth quarter of 2012 included the acquisition of an interest in the Chip Lake road. Other fluctuations in capital asset additions are a result of winter drilling program which typically occurs in the first quarter of each year, and progress of the Germain CDP throughout 2012 and 2013.

Net operating income increased during the first quarter of 2014 as a result of the initial bitumen production and bitumen blend sales from the Germain CDP. Net operating revenue derived from the Saleski pilot fluctuates due to alternating cycles of steam injection and bitumen production. Net operating revenue for both the Germain CDP and Saleski pilot fluctuates with changes in WTI benchmark pricing and differentials between WTI and Laricina's average realized sales price.

Other income is primarily associated with third-party usage of Laricina's camp facilities and roads. The third quarter of 2012 includes net proceeds of $1.2 million from the sale of certain Saleski pilot data to a third party. Finance income decreased throughout 2013 as a result of a decrease in the average funds held on deposit. Finance income increased during the second quarter of 2014 as a result of the proceeds from the issuance of senior secured notes.

Liquidity and Financial Resources

Working Capital

Working capital increased to $218.5 million at June 30, 2014 from $143.3 million at December 31, 2013 primarily due to the issuance of senior secured notes and warrants.

(thousands of dollars)	
Working capital at December 31, 2013	143,255
Capital expenditures (cash)	(28,826)
Operating activities	(40,441)
Proceeds from the issuance of senior secured notes and warrants	143,854
Other	666
Working capital at June 30, 2014	**218,508**

The remaining 2014 capital and operating spending program of approximately $80.0 million is focused on advancing engineering work at Saleski Phase 1, drilling program at Germain CDP, and continuing operations at the Saleski pilot and Germain CDP.

Laricina requires additional financing for sustaining capital and to advance future phases at both Saleski and Germain. The Company anticipates funding future capital and operating activities with an appropriate combination of debt and equity. Asset sales or joint arrangements may also be considered as alternative financing sources.

Investments

The Company's cash is currently held in a business operating account with a major Canadian bank which bears 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 1.5 to 1.8 percent. The Company may invest in Canadian government securities or fixed-term and bankers' acceptance investments with a minimum A rating.

Debt Financing

On March 20, 2014, Laricina completed a $150.0 million debt issuance of senior secured notes which mature on March 20, 2018 and bear interest at 11.5 percent payable quarterly. On each interest payment date the Company may elect to issue notes in lieu of payment of interest. These additional notes are identified as payment-in-kind notes. The senior secured notes and payment-in-kin notes are subject to certain financial and operational covenants which are further described in Note 7 of the accompanying notes to the unaudited condensed consolidated interim financial statements for the six month period ended June 30, 2014. In conjunction with this debt issuance, 3,750,000 warrants were granted to purchase common shares at prices ranging from $15.00 to $20.00 with an expiry date of March 20, 2019.

Laricina has a demand credit facility of $15.0 million with a major Canadian bank which has been extended to October 31, 2014 and is secured by an equivalent cash deposit. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At June 30, 2014 and the date of this report, the Company had letters of credit totalling $6.2 million outstanding under this credit facility, and no amount has been drawn. The letters of credit are related to the development of the Germain and Saleski projects.

Commitments and Contractual Obligations

As of the date of this report, the Company has contractual obligations as follows:

(thousands of dollars)	2014	2015	2016	2017	2018	Thereafter	Total
Interest payments on senior secured notes and payment-in-kind note	8,845	17,641	17,641	17,641	5,317	-	**67,085**
Repayment of senior secured notes	-	-	-	-	150,000	-	**150,000**
Repayment of payment-in-kind note	-	-	-	-	3,403	-	**3,403**
Operating leases	2,823	3,375	400	177	21	-	**6,796**
Other contractual commitments	2,329	8,002	2,249	1,828	815	11,204	**26,427**

Other contractual commitments include rig contracts, electricity purchases and other obligations.

The Company's letters of credit are to suppliers of utilities to support development at Saleski and Germain. If project development is interrupted, the Company will be required to reimburse up to $6.2 million of the suppliers' costs. The letters of credit of $5.7 million and $0.5 million are expected to be renewed on July 31, 2014 and August 31, 2014, respectively.

As at this date of this report the Company has $10.8 million of purchase commitments outstanding which relate to the engineering and purchase of long-lead equipment for Saleski Phase 1.

Outstanding Share Data

At July 24, 2014, share capital consisted of the following:

(thousands)	
Common shares	69,695
Stock options	1,778
Performance share units	1,752
Warrants	3,750
Total outstanding	**76,975**

Critical Accounting Estimates

A discussion of the Company's significant accounting policies is contained in Note 3 of the accompanying notes to the audited consolidated financial statements for the financial year ended December 31, 2013 in the Company's 2013 Annual Report. The nature of critical accounting estimates for Laricina remains unchanged since December 31, 2013.

Changes in Accounting Policies

The Company has adopted the following revised standards and interpretations effective January 1, 2014. These changes have been made in accordance with the applicable transitional provisions. The adoption of these revisions did not have an impact on the consolidated financial statements.

IAS 32, *Financial Instruments: Presentation*, has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event.

IAS 36, *Impairment of Assets*, has been amended to require additional disclosures in the event of recognizing an impairment of assets.

Risk Management

Risk factors remain substantially unchanged from December 31, 2013. For further information on risks please refer to the discussion of Risk Management found in the MD&A section of the Company's Annual Report for 2013.

Outlook

Laricina's working capital of $218.5 million provides the Company sufficient resources to manage the 2014 capital and operating spend program which focuses on the ongoing operations of the Germain CDP and Saleski pilot, and the advancement of detailed engineering and certain long-lead equipment for Saleski Phase 1. Laricina will continue to monitor the capital markets and consider financing strategies which will provide the necessary funds to further advance Saleski Phase 1 and additional future projects at Saleski and Germain.

The Company will continue to focus on demonstrating production performance in the Grosmont C and D zones at the Saleski pilot. The new D-zone well will be evaluated to confirm the drilling and completions techniques, and monitor operating parameters and resultant production profiles to confirm optimal performance from the Grosmont D Formation. Average production of approximately 520 gross barrels per day is expected from the Saleski pilot for the 2014 year.

Production volumes at the Germain CDP are expected to continue to increase as additional well pairs are converted to production. Solvent-cyclic SAGD (SC-SAGD) is anticipated to begin in the third quarter of 2014 and is expected to increase per well production rates while reducing the quantity of steam required per barrel of bitumen produced. The Company expects an average production rate of 1,000 barrels per day for the month of December, a decrease from the previous expectation of 2,350 barrels for day. The decrease in expected production rates is the result of slower than forecast production ramp-up from the wells in the bitumen zone and absence of production from wells in the basal water zone.

The remaining 2014 capital and operating spending program (including cash general and administrative expenses) is expected to be approximately $80.0 million, which includes operating activities at the Germain CDP and Saleski pilot. The majority of remaining capital spending will be for the advancement of engineering and fabrication of long-lead equipment for Saleski Phase 1.

Condensed Consolidated Statements of Financial Position

As at

Unaudited *(thousands of Canadian dollars)*	Note	**June 30 2014**	December 31 2013
Assets			
Current assets			
Cash and cash equivalents		**160,311**	113,066
Short-term investments		**64,000**	44,000
Trade and other receivables		**9,452**	10,275
Prepaid expenses and deposits		**3,285**	1,660
Inventories		**4,869**	3,486
		241,917	172,487
Non-current assets			
Abandonment deposits and other		**2,123**	2,118
Exploration and evaluation assets	6	**1,088,477**	1,076,374
Property, plant and equipment		**79,156**	81,555
Intangible assets		**40,182**	28,887
Deferred income tax		**26,161**	10,673
		1,236,099	1,199,607
Total assets		**1,478,016**	1,372,094
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**23,409**	27,545
Finance lease obligation		**-**	1,687
		23,409	29,232
Non-current liabilities			
Senior secured notes	7	**130,336**	-
Payment-in-kind note	7	**3,403**	-
Site restoration provision		**75,382**	66,911
		209,121	66,911
Total liabilities		**232,530**	96,143
Shareholders' equity			
Share capital	8	**1,342,027**	1,337,048
Contributed surplus		**53,034**	38,201
Deficit		**(149,575)**	(99,298)
Total shareholders' equity		**1,245,486**	1,275,951
Total liabilities and shareholders' equity		**1,478,016**	1,372,094

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

Condensed Consolidated Statements of Comprehensive Loss

Unaudited *(thousands of Canadian dollars)*	Note	**Three Months Ended June 30** **2014**	2013	**Six Months Ended June 30** **2014**	2013
Revenue					
Bitumen blend sales		**6,880**	720	**10,657**	2,255
Royalties		**(250)**	(12)	**(388)**	(40)
Net operating revenue		**6,630**	708	**10,269**	2,215
Other income	9	**1,396**	1,105	**6,725**	2,668
Gain on disposal of exploration and evaluation assets		**-**	746	**-**	746
		8,026	2,559	**16,994**	5,629
Expenses					
Transportation and blending		**3,964**	464	**5,694**	1,471
Operating		**17,549**	5,841	**37,261**	11,868
Pre-exploration		**100**	105	**100**	110
General and administrative		**9,578**	7,008	**18,519**	14,562
Depreciation and amortization		**8,039**	2,667	**15,976**	5,387
		39,230	16,085	**77,550**	33,398
Results from operating activities		**(31,204)**	(13,526)	**(60,556)**	(27,769)
Finance income		**889**	966	**1,431**	2,127
Finance expenses		**(5,537)**	(194)	**(6,640)**	(402)
Net finance income (expense)		**(4,648)**	772	**(5,209)**	1,725
Loss before income tax		**(35,852)**	(12,754)	**(65,765)**	(26,044)
Deferred income tax recovery		**(8,513)**	(3,004)	**(15,488)**	(5,945)
Total loss and comprehensive loss		**(27,339)**	(9,750)	**(50,277)**	(20,099)
Loss and comprehensive loss per common share	10				
Basic		**$ (0.40)**	$ (0.15)	**$ (0.73)**	$ (0.30)
Diluted		**$ (0.40)**	$ (0.15)	**$ (0.73)**	$ (0.30)

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, 2012	1,333,979	31,410	(56,692)	1,308,697
Comprehensive loss	-	-	(20,099)	(20,099)
Share-based payments	-	4,611	-	4,611
Performance share units exercised	858	(858)	-	-
Replacement options exercised	69	(67)	-	2
Stock options exercised	496	(131)	-	365
Balance at June 30, 2013	1,335,402	34,965	(76,791)	1,293,576
Comprehensive loss	-	-	(22,507)	(22,507)
Share-based payments	-	4,855	-	4,855
Performance share units exercised	857	(856)	-	1
Replacement options exercised	789	(763)	-	26
Stock options exercised	-	-	-	-
Balance at December 31, 2013	1,337,048	38,201	(99,298)	1,275,951
Comprehensive loss	-	-	(50,277)	(50,277)
Share-based payments	-	5,470	-	5,470
Warrants issued on financing	-	14,249	-	14,249
Performance share units exercised	2,149	(2,148)	-	1
Replacement options exercised	2,830	(2,738)	-	92
Balance at June 30, 2014	**1,342,027**	**53,034**	**(149,575)**	**1,245,486**

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

Condensed Consolidated Statements of Cash Flows

For the Six Months ended June 30
Unaudited
(thousands of Canadian dollars)

	2014	2013
Cash flows from operating activities		
Comprehensive loss for the period	**(50,277)**	(20,099)
Adjustments for:		
Depreciation and amortization	**15,976**	5,387
Equity settled share-based payments	**4,205**	2,549
Non-cash interest expense	**4,134**	-
Unwinding of site restoration discount	**1,009**	234
Deferred income tax recovery	**(15,488)**	(5,945)
Gain on disposal of exploration and evaluation assets	**-**	(746)
	(40,441)	(18,620)
Change in trade and other receivables	**(1,282)**	2,529
Change in prepaid expenses and deposits	**(2,050)**	(734)
Change in inventories	**(1,249)**	(750)
Change in trade and other payables	**4,862**	(2,903)
Net cash used in operating activities	**(40,160)**	(20,478)
Cash flows from investing activities		
Property, plant and equipment, and exploration and evaluation expenditures	**(35,821)**	(132,163)
Proceeds from the disposal of exploration and evaluation assets	**961**	7,596
Short-term investments	**(20,000)**	34,818
Abandonment deposits	**(5)**	(5)
Net cash used in investing activities	**(54,865)**	(89,754)
Cash flows from financing activities		
Proceeds from the issuance of senior secured notes and warrants	**143,864**	-
Proceeds from the issuance of common shares	**93**	367
Finance lease obligation	**(1,687)**	(2,614)
Net cash from (used in) financing activities	**142,270**	(2,247)
Net increase (decrease) in cash and cash equivalents	**47,245**	(112,479)
Cash and cash equivalents, beginning of period	**113,066**	310,884
Cash and cash equivalents, end of period	**160,311**	198,405

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

Notes to the Condensed Consolidated Interim Financial Statements – June 30, 2014

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

1. Reporting Entity

Laricina Energy Ltd. (Laricina or the Company) 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 six months ended June 30, 2014 encompasses the Company and its subsidiaries. Since inception, Laricina has focused on acquiring prospective oil sands properties, developing properties into projects, financing, attracting suitable personnel and developing innovative technologies. Two areas have been identified as near-term commercial projects, Saleski and Germain. The Company has a 60 percent working interest in Saleski and a 100 percent working interest in Germain. The Company requires equity and debt financing to fund projects beyond the Saleski pilot and Germain commercial demonstration project.

The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements which were prepared in accordance with International Financial Reporting Standards (IFRS) and are included in the Company's Annual Report for 2013.

2. Basis of Preparation

Statement of compliance
The condensed consolidated interim financial statements have been prepared by the Company in accordance with 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 consolidated financial statements as at and for the year ended December 31, 2013, except as described in Note 3.

The condensed consolidated interim financial statements were approved for release to shareholders by the Board of Directors on July 24, 2014.

Basis of measurement
The condensed consolidated interim financial statements have been prepared on the historical cost basis except for liabilities for cash-settled share-based payment arrangements measured at fair value which are included in Trade and other payables. The methods used to measure fair value are included in the Company's Annual Report for 2013.

Use of estimates and judgments
The nature of critical accounting estimates and judgments for Laricina remains unchanged since those included in the Company's Annual Report for 2013.

3. Changes in Accounting Policies

The Company has adopted the following revised standards effective January 1, 2014. These changes have been made in accordance with the applicable transitional provisions. The adoption of these revisions did not have an impact on the consolidated financial statements.

IAS 32, *Financial Instruments: Presentation*, has been amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event.

IAS 36, *Impairment of Assets*, has been amended to require additional disclosures in the event of recognizing an impairment of assets.

4. Basis of Consolidation

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

5. Financial Instruments

Financial instruments are initially recognized in the statement of financial position at fair value. Subsequent measurement of financial assets and liabilities, except those at fair value through comprehensive loss and available-for-sale, are measured at amortized cost determined using the effective interest rate method. 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, and prepaid expenses and deposits 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. Payment-in-kind notes are classified as other financial liabilities. The Company has not designated any financial instruments as available-for-sale.

Determination of fair values

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

Level 1 fair value measurement

Level 1 fair value measurements are based on unadjusted quoted market prices.

Level 2 fair value measurement

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

Level 3 fair value measurement

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

The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the period ended June 30, 2014.

6. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2013	1,105,639
Additions during the period	36,334
Balance, June 30, 2014	**1,141,973**
Depreciation	
Balance, December 31, 2013	(29,265)
Depreciation for the period	(24,231)
Balance, June 30, 2014	**(53,496)**
Carrying amounts	
As at December 31, 2013	1,076,374
As at June 30, 2014	**1,088,477**

7. Senior Secured Notes and Payment-in-kind Note

Senior secured notes	150,000
Less unamortized discount	(4,339)
Less unamortized debt issue costs	(15,325)
Balance, June 30, 2014	**130,336**

On March 20, 2014, the Company issued senior secured notes (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 may elect to issue notes in lieu of payment of interest. These additional notes are identified as payment-in-kind (PIK) notes. The PIK notes bear interest at a rate of 11.5 percent per annum. During the second quarter of 2014, the Company issued a PIK note totaling $3.4 million. The initial notes and PIK notes together are defined as the Notes.

Under the terms of the indenture agreement, the Company is subject to certain reporting requirements and 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 Company is 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 transfer of assets; and initiate amalgamations, mergers or consolidations. At June 30, 2014, the Company was in compliance with all debt covenants.

The Company has the option to redeem the Notes at any time prior to March 20, 2015 at a redemption price equal to the make-whole amount applicable to such Note. The make-whole amount is calculated as: the aggregate principal amount of such Notes; the interest accrued and unpaid on such notes; and 75 percent of the present value of all required remaining scheduled interest payments until the maturity date of such Notes discounted back to the redemption dates at the Government of Canada yield plus 50 basis points. On or after March 20, 2015, Laricina has the option to redeem the Notes at a price of 103%, 102% and 101% in the twelve month period beginning on March 20, 2015, 2016 and 2017, respectively.

Debt issue costs and the discount associated with the debt issuance are amortized to net income over the life of the initial notes using the effective interest rate method. Debt issue costs include $1.6 million of cash payments and $14.2 million of costs related to the issuance of 3,750,000 warrants.

From the proceeds received on issuance, the amount allocable to the initial notes has been determined first with the remaining proceeds being allocated to the warrants.

For the three and six month periods ended June 30, 2014, interest expense of $0.1 million (nil in 2013) and $0.1 million (nil in 2013), respectively, has been recognized for the amortization of cash payments related to debt issue costs. During the three and six month periods ended June 30, 2014, interest expense of $0.5 million (nil in 2013) and $0.5 million (nil in 2013), respectively, has been recognized for the amortization of debt issue costs associated with the issuance of warrants.

At June 30, 2014 the Company had the following obligations related to interest payments and repayment of the Notes:

Less than 1 year	17,641
Between one and three years	35,283
Between three and five years	167,564
	220,488

8. 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, 2013	67,762	1,337,048
Replacement options exercised	1,844	2,830
Performance share units exercised	89	2,149
Balance, June 30, 2014	**69,695**	**1,342,027**

Replacement options

On June 18, 2012, the Company entered into a replacement option agreement with certain directors, officers and employees whereby the holders of specific options and performance warrants exchanged their rights to these options and performance warrants for replacement options. The economic value of the rights exchanged equaled the economic value of the replacement options granted on the date of the exchange. All replacement options have been exercised and for each replacement option exercised the holder received one common share.

8. Share Capital (continued)

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2013	1,879	$	0.05
Exercised	(1,844)	$	0.05
Surrendered	(35)	$	0.05
Outstanding, June 30, 2014	**-**	**$**	**-**

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.

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2013	2,088	$	27.36
Granted	25		15.00
Expired	(234)		18.53
Forfeited	(102)		29.18
Outstanding, June 30, 2014	**1,777**	**$**	**28.24**
Exercisable, June 30, 2014	**1,077**	**$**	**27.61**

For the three and six month periods ended June 30, 2014, compensation cost of $0.4 million ($1.2 million in 2013) and $0.7 million ($2.6 million in 2013), respectively, has been recognized for options that have been granted. During the three and six month periods ended June 30, 2014, a nominal amount ($0.5 million in 2013) and $0.1 million ($1.1 million in 2013), respectively, was capitalized.

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).

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2013	1,140	$	0.01
Granted	862		0.01
Exercised	(89)		0.01
Forfeited	(168)		0.01
Outstanding, June 30, 2014	**1,745**	**$**	**0.01**
Exercisable, June 30, 2014	**292**	**$**	**0.01**

For the three and six month periods ended June 30, 2014, compensation cost of $1.7 million ($1.2 million in 2013) and $4.8 million ($2.0 million in 2013), respectively, has been recognized for PSUs that have been granted. For the three and six month periods ended June 30, 2014, $0.3 million ($0.5 million in 2013) and $0.9 million ($0.9 million in 2013) was capitalized, respectively.

Warrants

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

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2013	-	$	-
Granted	3,750		18.00
Outstanding, June 30, 2014	**3,750**	**$**	**18.00**
Exercisable, June 30, 2014	**3,750**	**$**	**18.00**

For the three month and six month periods ended June 30, 2014, finance expense of $0.4 million and $0.5 million, respectively, has been recognized using the effective interest rate method 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.

8. Share Capital (continued)

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2013	102	$	29.80
Expired	(47)		31.22
Forfeited	(5)		29.41
Outstanding, June 30, 2014	**50**	**$**	**28.50**
Exercisable, June 30, 2014	**25**	**$**	**28.50**

All SARs were granted to employees directly involved in field activities. For the three and six month periods ended June 30, 2014, recoveries of $0.2 million and $0.5 million, respectively, (a recovery of $0.1 million and compensation cost of $0.1 million, respectively, in 2013) were recorded for SARs that have been granted. At June 30, 2014, the Company recorded an accrued liability of $0.4 million ($0.9 million at December 31, 2013) for outstanding SARs. At June 30, 2014 and December 31, 2013, the Company had no obligation for SARs that had vested.

9. Other income

Other income is comprised of third-party camp and road usage.

10. Loss and Comprehensive Loss per Share

Basic loss and comprehensive loss per share

The calculation of basic loss per share for the three and six month periods ended June 30, 2014 was based on the loss attributable to common shareholders of $27.3 million and $50.3 million ($9.8 million and $20.1 million in 2013), respectively, and the weighted average number of common shares outstanding during the three and six month periods ended June 30, 2014. The weighted average number of common shares outstanding was calculated as follows:

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands)	**2014**	2013	**2014**	2013
Issued common shares at beginning of period	**68,436**	67,115	**67,762**	67,103
Effect of replacement options exercised	**618**	37	**628**	19
Effect of options exercised	**-**	5	**-**	9
Effect of PSUs exercised	**8**	33	**41**	17
Weighted average common shares outstanding (basic)	**69,062**	67,190	**68,431**	67,148

Diluted loss and comprehensive loss per share

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

The basic and diluted loss per share was $0.40 and $0.73 for the three and six month periods ended June 30, 2014, respectively, compared to a basic and diluted loss per share of $0.15 and $0.30 for the three and six month periods ended June 30, 2013, respectively.

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.

Adam D. Vigna[2, 3]
Vice President, Head of Private Debt
CPPIB Equity Investments Inc.

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

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