



2011 Third Quarter Interim Report

Laricina continued to advance its initiatives during the third quarter of 2011. The Company moved its Saleski and Germain projects along their respective paths, continued work on regulatory applications and advanced the engineering, procurement and fabrication for both projects, completed another equity financing, and added people to its head office and field team. This progress came amid uncertain equity markets and volatile commodity prices.

Highlights for the third quarter

Saleski:

- Cumulative sales of bitumen blend totalled 26,300 barrels gross;
- Pilot testing continued with an additional steam cycle on each operating well pair;
- Filed information required under the original pilot application to the ERCB to add a second steam generator, which was approved after the quarter-end; and
- Continued to move the 10,700 barrel-per-day (gross) Phase I expansion through the regulatory process and extended the time-line for first steam.

Germain:

- Completed civil site construction for the 5,000 barrel-per-day commercial demonstration project, on time and on budget;
- Commenced drilling the first six of 10 planned injection and production well-pairs;
- Continued procurement, engineering and module fabrication;
- Commenced camp expansion to support project construction;
- Continued work on the regulatory application for the next three expansion phases; and
- Extended the time-line for the commercial demonstration project and subsequent expansion phases.

Financial:

- Raised an additional \$140 million by way of equity private placement, which followed on the \$380 million equity private placement which closed in June 2011;
- Made capital expenditures of \$54.4 million; and
- Ended the quarter with working capital of \$706.7 million.

Saleski

The pilot project provides critical data as we establish the key operating and reservoir performance parameters for the application of steam-assisted gravity drainage (SAGD) in the Grosmont carbonates. We have a number of applications underway and a number yet to be conducted and our operating practices and procedures are being adjusted as we gain valuable information on how this new formation responds to the SAGD process. We continue to be encouraged by the knowledge gained as we move through the next steps to optimize our operations.

The pilot has produced cumulative gross sales of 26,300 barrels of bitumen blend since first oil in March 2011 to September 30, 2011. The two well pairs (C and D) have been run through an additional steam cycle to augment their production performance and allow us to collect data critical to substantiating the overall validity of our plan to produce bitumen through SAGD. In particular, our pilot plan is aimed at permitting us to select the optimum combination of operating parameters, relating to start-up, well drilling and completion design, and steam capacity per injector well in the carbonates.

Achieving the pilot's key goal of evaluating SAGD and solvent-cyclic or SC-SAGD bitumen extraction in the carbonates, involves successive cycles of testing, observation, gaining knowledge, marketing of initial production, adaptation, application of solvents, adjustment and further observation that will last up to two to three years of pilot operations. Ongoing production tests will continue, in order to understand reservoir permeability, well conformance and the conductive heating phase between the well-pairs. So far, these operational activities have resulted in the C and D well-pairs achieving less time operating at high temperatures, which in turn has increased the time to achieve full start-up. A typical start-up for commercial operations is expected to occur without production tests. Based on our work to date, we expect that in the second half of 2012 the SAGD performance curve will be at a stage in maturity allowing us to initiate solvent injection, thereby beginning the SC-SAGD phase of our pilot plan.

During a typical SAGD start-up process the length of the production well bore that is contributing to flow gradually increases as the temperature rises in the rock between the wells, which is followed by increasing production. Later in the third quarter, levelling production and temperature and pressure data in both the C and the D well-pairs indicated that a smaller than anticipated portion of each well bore was contributing to flow, and that flow was not increasing as expected. We believe that contributing factors were the low inter-well temperature from the ongoing production tests, higher than optimal well separation, and impairment in the near-well-bore region from cuttings lost into areas of very high permeability along the well bores during drilling.

To accelerate the production ramp-up and test the drill-cutting thesis, subsequent to quarter-end we conducted a well stimulation on the D well-pair while the C well-pair entered a longer steam injection phase. The D well-pair stimulation was aimed at changing the fluid communication between the injector and producer. The initial results were favourable, with increased flow volumes, temperature and bitumen production. However, mechanical issues have delayed implementing the pilot plan in the D well-pair. Further results of this stimulation work will be observed through well responses in the fourth quarter, once the well-pair returns to production.



In late October the C well-pair was returned to production and also is experiencing increased flow rates, temperature and bitumen production. We are also planning to stimulate this well-pair. Once the benefits are understood in both well-pairs, additional reservoir heating may be required to advance SAGD development and production to commercial benchmarks.

In conjunction with ongoing well optimization, planning is underway to drill one or two new well-pairs incorporating our recently added knowledge, including the use of underbalanced drilling to minimize the loss of drill cuttings, as well as tighter well separation and no production testing, aimed at allowing heating to occur at higher temperatures and pressures. Advances in drilling technology and future enhancements to drilling horizontal wells in bitumen carbonates, together with our continuous learning about the Saleski Grosmont carbonate, generate confidence that drill-cutting losses can be minimized in future horizontal wells. Applying what we have learned from the C and D well-pairs in an all-new well-pair will enable us to demonstrate an optimized SAGD start-up approach for the Grosmont carbonates.

Operations to date have demonstrated over 95 percent run-time on the steam generation and bitumen processing facilities, have confirmed that progressive cavity pumps are the proper artificial lift system, have shown that solids production is not of concern, and that bitumen production can occur at lower temperatures than that found in the McMurray Formation.

Alberta's Grosmont carbonates hold over 400 billion barrels of bitumen-in-place. We are in the very early stages of unlocking this vast reservoir and, given our progress to date, we consider the results positive.

During the third quarter Laricina filed information required under the original pilot approval to the Energy Resources Conservation Board (ERCB) to add the second planned 50 mmbtu steam generator at Saleski. This will allow us to expand our pilot plan to achieve its productive potential under pure SAGD and supply steam to new well-pairs. After the quarter's end Laricina received ERCB notification of compliance under the original approval to install the second steam generator (the initial Alberta Environment approval included the second steam generator) and we anticipate having it operational in early 2012.

Price realization on oil sales and trucking has been tracking our budget. Bitumen blend prices have averaged 75 percent of WTI with a net bitumen field price at approximately 52 percent of WTI, while trucking costs have averaged approximately \$9 per barrel.

Engineering and regulatory work continued throughout the third quarter for the Phase I expansion of 10,700 gross barrels per day, and we continue to anticipate regulatory approval by mid-2012. Procurement is planned to begin in the first quarter of 2012. We have, however, shifted the planned start-up from near year-end 2013 to early in the fourth quarter of 2014. This decision was driven by the timing of pilot activities, the need to control costs, recognizing the constraints in the oil sands sector's supply chain, and the need to carefully manage our capital. The 10,700 barrel-per-day expansion is expected to cost approximately \$660 million gross, of which approximately \$648 million



remains to be spent. Our cost estimates have increased from the preliminary figure reported in the 2010 annual report, which was subject to revision based on a more detailed cost estimate of major components and labour. Our current estimate for the plant facility provide greater certainty of costs and project scope, and includes anticipated increases in costs for drilling and completing horizontal well-pairs in the Grosmont carbonates.

Germain

The 5,000 barrel-per-day commercial demonstration project also advanced in the third quarter. The site preparation was completed on schedule and is ready for the start of piles in January 2012 and for delivery of modules later in the first quarter. Drilling began early in the third quarter on the initial six of the planned 10 well-pairs, and drilling of these wells concluded in early November. Initial well completions are planned for early 2012. Capital costs of these activities are tracking budget.

Camp expansion to support construction was 60 percent complete in the third quarter and is on schedule to be completed prior to year-end, with the launch of central facility construction early in the first quarter of 2012.

The overall capital forecast for the Germain commercial demonstration project is approximately \$435 million, including necessary infrastructure that will support the next expansion phase, of which \$340 million remains to be spent. The revised total compares to \$330 million announced in our 2010 annual report. The increased capital requirement arises equally from a decision to increase steam capacity, higher costs to drill and complete the well-pairs, revised plans for additional water source wells, and potential cost increases for escalation on labour, manufactured equipment and services.

In order to control costs we have extended the expected start-up of the commercial demonstration project from the fourth quarter of 2012 as previously planned to early in the second quarter of 2013. Our decision recognizes the increased lead-times for manufactured items and other realities concerning supply of equipment, parts and components, fabrication of modules, shipping and installation, and provision of services such as engineering.

Work also continued on the regulatory applications for the three-phase, 150,000 barrel-per-day expansion, and we expect the application to be filed by year-end. The first expansion phase (Phase 2 of the overall Germain project) is a 30,000 barrel-per-day facility. This phase's start-up has been shifted from about year-end 2014 to the third quarter of 2015. The delay in regulatory filing for the Germain expansion announced earlier in the year is partially at cause. We anticipate the very busy provincial regulators requiring more time to evaluate and approve applications. Further, we have increased the level of detail of our cost estimating, which tends to increase the length of procurement turnarounds. The 30,000 barrel-per-day expansion is forecast to cost \$1.1 billion to \$1.5 billion, of which almost all remains to be financed.



Corporate

During the third quarter Laricina further secured its capital requirements for its current projects, raising an additional \$140 million gross through private placements of 3.3 million common shares at \$42.50 per common share. This supplements the \$380 million raised in a private placement that closed just before the end of the second quarter. Working capital at the end of the third quarter increased to \$706.7 million, and provides sufficient funding for our plans over the next year.

Laricina's 2011 capital and operating expenditures are forecast to be \$303 million. Planned spending for the remainder of the year focuses on advancing project development, such as completing detailed engineering, placing major equipment orders, fabrication of modules and completing initial drilling at Germain, meeting ongoing capital and operational requirements for the Saleski pilot and potential drilling of a new well-pair, ongoing road maintenance and project infrastructure, and continuing the front-end engineering and design for Saleski Phase I.

Working capital is anticipated to be approximately \$560 million at year-end 2011, providing sufficient funds for the entire 2012 program. The Company's capital and operating expenditures are expected to be \$403 million for 2012, with the majority directed to the Germain commercial demonstration project and Saleski Phase I expansion. Budgeted spending also includes corporate general and administrative costs and Saleski pilot project and operating costs, plus a winter resource delineation program of drilling and seismic concentrated at Germain and Saleski. Under the assumption of an uncertain economic environment we will manage our capital program prudently and stage capital expenditures where we have flexibility for discretionary components to ensure our working capital is effectively managed.

Advancing Laricina's projects past the milestones while carefully managing our capital resources requires thorough, detailed planning by qualified personnel. Since the beginning of 2011 we have added over 40 permanent staff, complementing our technical and business disciplines in proportion to the growth of our activities.

On August 29 the Government of Alberta released its updated Draft Lower Athabasca Regional Plan, which covers Alberta's oil sands producing region, building on a phase-three comment period during the spring. The updated draft sets aside 5 million acres for conservation areas, and we are pleased to confirm that Laricina's land and resources will not be affected. This is thanks to the hard work of Laricina, other oil sands operators and the industry as a whole in protecting the rights of energy companies to operate and pursue their legitimate business plans on duly issued mineral leases.

Outlook

Recent economic events and market behaviour plus widespread guarded outlooks among forecasting sources underscore the need for careful capital stewardship. As equity markets worldwide contracted significantly during the third quarter with sovereign debt concerns in Europe and recessionary fears in the United States, the TSX fell by more than 19 percent from its 52-week high and crude oil traded below US\$80 per barrel for WTI, more than US\$30 per barrel off its 52-week high, before both recovered somewhat early in the fourth quarter. For an export-dependent country such as Canada,



expected stronger growth in developing countries only partially offsets weakness in Europe and the U.S.

The economic environment requires Laricina to optimize its use of capital, including the management of project timing. Laricina will continue to evaluate the capital commitments for the longer-dated projects to ensure capital is conserved should the economic slowdown become protracted. The Keystone XL pipeline project remains important to the marketing of Alberta's expanding bitumen production, and a failure by the U.S. federal government to approve this project would likely cause Laricina and other producers to further revisit their project schedules to reflect available bitumen pipeline transportation.

Over the next few quarters we will focus on prudently advancing our projects, carefully managing our capital, extending our track record of technical excellence, and enhancing our learning from pilot-scale operations in order to optimize commercial project design and future resource recovery, all while remaining positioned to manage a weaker economic environment. The Company's management is pleased with the results of operations and the knowledge we are gaining from the Saleski pilot. We continue to be excited by our project opportunities, but will temper our pace of development as we prudently advance Laricina's projects.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
November 3, 2011

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

November 3, 2011

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 nine months ended September 30, 2011 and September 30, 2010, and the audited consolidated financial statements and MD&A contained in the Company's Annual Report for the financial year ended December 31, 2010. The financial information presented in this MD&A has been prepared in accordance with International Accounting Standard 34 – Interim Reporting. In February 2008, the Canadian Institute of Chartered Accountants' Accounting Standards Board confirmed the adoption of International Financial Reporting Standards (IFRS) for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. Laricina has converted to IFRS effective January 1, 2011. All comparative numbers have been restated in accordance with the policies adopted under IFRS as outlined in note 3 to the unaudited condensed consolidated interim financial statements, unless otherwise stated.

The information in this MD&A provides management's analysis of the financial and operating results of Laricina and may contain 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.

Advisory on Forward-Looking Statements

This 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, 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" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could" or "will" be taken or occur in the future. You are cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both 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 November 3, 2011, there can be no assurance that such expectations will prove to be correct and, accordingly that actual results will be consistent with the forward-looking statements. The risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this interim report include, but are not limited to: geological conditions relating to the Company's properties; the impact of regulatory changes especially as such relate to royalties, taxation and environmental changes; the



impact of technology on operations and processes and the performance of new technology expected to be applied or utilized by the Company; labour shortages; supply and demand metrics for oil and natural gas; the impact of pipeline capacity, upgrading capacity and refinery demand; general economic business and market conditions and such other risks and uncertainties described from time to time in the reports and filings made with 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 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 so, what benefit Laricina will derive from them. Unless required by law the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this interim report are expressly qualified by this advisory and disclaimer.

Financial Overview

<i>(thousands of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Working capital	\$ 706,696	\$ 381,783	\$ 706,696	\$ 381,783
Capital expenditures (cash)	54,444	25,326	139,066	79,931
Net loss	(6,089)	(1,264)	(16,183)	(4,600)

Laricina has achieved a number of significant milestones during 2011. The Company completed the commissioning of the Saleski pilot, the first steam-assisted gravity drainage (SAGD) project in the Grosmont Formation carbonate reservoir; began selling bitumen produced from the Saleski pilot; and has made significant progress in the construction of the Germain 5,000-barrel-per-day solvent-cyclic SAGD commercial demonstration project (CDP) in the Grand Rapids Formation.

In addition, Laricina completed equity private placements totalling 12,227,828 common shares at \$42.50 per common share for net proceeds of \$499.6 million. These financings included the Company's largest equity private placement of 8,928,709 common shares on June 29, 2011 and attracted several new quality investors in conjunction with existing investors. The proceeds from these private placements will be used to complete the Germain CDP, continue the expansion of additional phases at Germain and Saleski, advance other future development projects and for general corporate purposes.

The remainder of 2011 will focus on operations at the Saleski pilot; continued analysis of the data received from the Saleski pilot; the advancement of engineering and regulatory work to support the 10,700 barrel per day Phase 1 expansion at Saleski; and the engineering, module fabrication, electrical infrastructure, construction and drilling activities for the Germain CDP.



Capital Investment

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

<i>(thousands of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Exploration and evaluation assets:				
Land	\$ 115	\$ 529	\$ 263	\$ 616
Exploration	99	(125)	15,825	2,360
Development	46,657	20,623	96,817	57,713
Other	8,429	1,666	19,542	4,797
Capitalized general and administrative	3,711	2,808	11,216	7,722
	59,011	25,501	143,663	73,208
Property, plant and equipment:				
Facilities and other equipment	116	855	15,263	9,983
Corporate	940	43	1,288	863
	1,056	898	16,551	10,846
Intangible assets	1,266	-	8,204	-
Capital asset additions	\$ 61,333	\$ 26,399	\$ 168,418	\$ 84,054
Capital expenditures (cash)	\$ 54,444	\$ 25,326	\$ 139,066	\$ 79,931

Capital asset additions during the first nine months of 2011 include the initial drilling of six horizontal well-pairs for the Germain CDP facility; the construction of a permanent camp at Germain; detailed engineering and site preparation for the Germain CDP facility and initial well pad; and completion of the 2010-2011 winter drilling program of 13 exploration wells and 27 development wells.

Exploration

Exploration activities during the first nine months of 2011 included preparation for the 2011-2012 winter exploration drilling at Saleski and Germain; a 15.6 square-km 3-D seismic program over the Saleski Phase 1 planned facility site; and the completion of the 2010-2011 winter drilling program of 13 exploration wells, of which five were in Germain, five in Saleski and the remaining three were in the Burnt Lakes area. The information obtained from these wells will be used to support the Germain, Saleski and Burnt Lakes development plans. During the first nine months of 2010, exploration activities included an 8.6 square-km 3-D seismic program covering the future Germain CDP facility site.



Development activities

The majority of development expenditures incurred during the nine month period ended September 30, 2011 were to support the advancement of the Germain CDP. In comparison, development expenditures in the first nine months of 2010 were to support the completion of the Saleski pilot facility.

<i>(thousands of dollars)</i>	Nine Months Ended September 30	
	2011	2010
Saleski	\$ 8,575	\$ 65,591
Germain	101,508	2,052
Other	1,997	53
	\$ 112,080	\$ 67,696

During the third quarter of 2011, Laricina commenced the drilling of 12 horizontal wells (six well-pairs) of the 20 horizontal (10 well-pairs) initially planned for the Germain CDP. At September 30, 2011 lateral sections were completed on two of the 12 horizontal wells drilled. Other development drilling activities during the nine month period ended September 30, 2011 were primarily to support the Germain CDP and include the 2010-2011 winter program of 17 observation wells, eight water source and monitoring wells, and two water disposal wells. The development activities during the first nine months of 2010 were primarily in support of the Saleski pilot and included the 2009-2010 winter drilling program of five water source wells, four water monitoring wells and five observation wells and the completion of the well-pairs used in the Saleski pilot.

Other development activities in the first nine months of 2011 included the recording of a \$15.0 million finance lease for the Germain permanent camp, and detailed engineering and site preparation for the Germain CDP. This project will continue to advance through 2011 with the fourth quarter expenditures focused on engineering, module fabrication and the completion of the six well-pairs. Additional development activities during 2010 included the final grading of the all-weather road and construction of the Saleski pilot.

Other

Other capital activities during the first nine months of 2011 included commissioning requirements associated with initial steaming and first production at the Saleski pilot facility; advancing the regulatory application for Saleski Phase 1; initiation of engineering for a lateral sales pipeline; activities to advance the environmental impact assessment and regulatory application for the 3-phase, 150,000-barrel-per-day Germain expansion; progress on research and development projects, including Enhanced Solvent Extraction Incorporating Electromagnetic Heating project; and provisions for future site restoration.

In July 2011, the Government of Alberta announced that Laricina was selected to receive funding of up to \$10.0 million (gross) under the Innovative Energy Technologies Program for the Saleski pilot. This funding is to be used to advance future Saleski development.



Intangible assets

In the nine month period ended September 30, 2011, Laricina recorded intangible assets of \$5.7 million relating to the expansion of available power for the Company's future development projects at Germain. An additional \$2.5 million has been recorded for the recapitalization of the amortization of certain components of the Saleski pilot. Components of the pilot such as the development well-pairs directly contribute to the understanding of the reservoir and assist in the assignment of proven reserves and will be recapitalized until the related reserves are recognized.

Capital expenditures before capitalized general and administration costs are expected to be \$130.7 million for the remainder of 2011. Of these expenditures, \$22.6 million will be expended for the Saleski pilot and Phase 1 expansion, \$76.0 million for the Germain CDP and advancing Phase 2, \$25.6 million for development infrastructure, \$3.0 million to support the preliminary 2011-2012 winter exploration drilling and geophysical program and the remainder for studies and corporate development. Laricina plans to finance future activities with current cash resources, debt and equity financings.

Corporate Results

<i>(thousands of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Net revenue	\$ 784	\$ -	\$ 1,031	\$ -
Operating expense	4,408	-	6,725	-
General and administrative expenses, net	4,189	1,876	11,346	5,768
Finance income	2,622	912	4,776	1,137
Income tax recovery	(1,604)	(180)	(2,116)	(831)
Net loss	(6,089)	(1,264)	(16,183)	(4,600)

Operating activities

Laricina recorded its first production volumes and initial blend sales during the second quarter of 2011. Since initial production, Laricina has recorded blend sales of approximately 26,300 gross (15,800 net) barrels at an average price of \$67.19 per barrel. It is anticipated that production will increase as reservoir steaming continues.

Operating, transportation and blending costs recognized during the second and third quarter of 2011 are directly related to first production and blend sales from the Saleski pilot. Due to the experimental nature of a pilot, it is expected that operating costs will exceed net revenue throughout the life of this project.



Finance income

Finance income increased during the three and nine months ended September 30, 2011 when compared to the same periods in 2010 primarily due to the increased funds on deposit from private placements combined with an increase in the average interest rates for invested funds.

General and administrative expenses

Gross general and administrative expenses increased for the three and nine month periods ended September 30, 2011 when compared to the same periods in 2010 primarily due to the continued growth in the Company's employee and consulting base. Costs directly related to project exploration and development activities are capitalized.

<i>(thousands of dollars)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
General and administrative expenses, gross	\$ 5,405	\$ 3,135	\$ 16,236	\$ 8,994
Stock-based compensation costs	2,495	1,550	6,326	4,496
Capitalized costs	(3,711)	(2,809)	(11,216)	(7,722)
General and administrative expenses, net	\$ 4,189	\$ 1,876	\$ 11,346	\$ 5,768

At September 30, 2011, the Company had 122 employees compared to 68 at September 30, 2010. General and administrative expenses are expected to further increase as a result of the anticipated increases in staffing levels as the Company continues to advance its projects at Germain and Saleski. As the projects continue to progress towards commercialization, a smaller percentage of general and administrative expenses will be capitalized.

Net loss

The Company recorded a net loss of \$6.1 million and \$16.2 million for the three and nine months ended September 30, 2011, respectively, compared to a net loss of \$1.3 million and \$4.6 million during the three and nine month periods ended September 30, 2010, respectively. The net loss from operating activities associated with the Saleski pilot accounted for the majority of the increase in net loss combined with increased general and administrative expenses. Typical of a company in early stages of operations, Laricina is expected to continue to show net losses from operating activities until commercial production is achieved. Due to the experimental nature of a pilot project the Saleski pilot is expected to have operating costs in excess of net revenue throughout the life of the pilot facility.

Finance costs

Finance costs include accretion for the site restoration provision and interest recorded on the finance lease associated with the Germain permanent camp. Finance costs increased during the first nine months of 2011 when compared to the same period in 2010 due to the finance lease which commenced in January 2011 combined with the additional costs associated with providing for site



restoration for the Germain CDP including construction of the facility site, well pad and horizontal well-pairs drilled during the third quarter.

Pre-exploration costs

Pre-exploration activities during the nine months ended September 30, 2011 include initial surveying work to support future pipeline infrastructure. There were no pre-exploration activities during the comparable periods in 2010.

Amortization

Increases in amortization expense during the three and nine months ended September 30, 2011 are directly related to the completion of the all-weather road in the third quarter of 2010, the availability of the Germain camp for use in the first quarter of 2011 and from the start-up of the Saleski pilot facilities and subsequent production during the first quarter of 2011.

Selected Quarterly Information

*(thousands of dollars,
except per share amounts)*

	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Working capital	\$ 706,696	\$ 631,215	\$ 294,200	\$ 361,751	\$ 381,783	\$ 92,906	\$ 109,378	\$ 149,320
Capital asset additions	61,333	25,382	81,703	35,753	26,399	16,157	41,498	12,108
Finance and other income	2,622	1,220	934	4,251	912	118	107	122
Net profit (loss)	(6,089)	(5,755)	(4,339)	716	(1,264)	(1,756)	(1,580)	(1,574)
Net profit (loss) per								
common share, basic	\$ (0.10)	\$ (0.11)	\$ (0.08)	\$ 0.01	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.04)
Net profit (loss) per								
common share, diluted	\$ (0.10)	\$ (0.11)	\$ (0.08)	\$ 0.01	\$ (0.03)	\$ (0.04)	\$ (0.04)	\$ (0.04)

The 2010 quarterly information has been restated to conform with the conversion to IFRS. The 2009 quarterly information presented has been prepared under Canadian GAAP.

Working capital increased during the second and third quarters of 2011 due to the closing of equity private placements of common shares in June and August contributing net proceeds of \$365.8 million and \$133.8 million, respectively. At the end of the third and fourth quarters of 2010, working capital was significantly higher due to the closing of private placements of common shares providing net proceeds of \$329.6 million.

The increase in capital asset additions during the third quarter of 2011 is attributable to the initial drilling of 12 horizontal wells (six well-pairs) and the completion of approximately 60 percent of the engineering for the Germain CDP. The increase in capital asset additions during the first quarter of 2011 is due to the recording of the \$15.0 million Germain camp finance lease and expenditures incurred from the 2010-2011 winter drilling program of 13 exploration wells and 27 development wells. An increase in capital spending occurred throughout 2010 due to the construction of the Saleski pilot for first-steam on December 23, 2010. Capital asset additions generally increase in the first quarter of each year due to the seasonality of the exploration drilling and geophysical programs usually completed during the winter months.



Other income in the fourth quarter of 2010 resulted from the sale of Saleski pilot data to a third-party resulting in net proceeds of \$3.0 million. Finance income has increased since the third quarter of 2010 due to increased funds on deposit from financings completed throughout 2011 and in the second half of 2010.

Liquidity and Financial Resources

Working Capital

Working capital increased from December 31, 2010 by \$344.9 million to \$706.7 million at September 30, 2011 primarily due to the receipt of \$499.6 million net proceeds from the private placement financings which closed in the second and third quarters of 2011. This increase is partially offset by capital expenditures incurred for the initial drilling of 12 horizontal wells, engineering and construction costs for the Germain CDP and the 2010-2011 winter drilling program.

(thousands of dollars)

Working capital, December 31, 2010	\$ 361,751
Proceeds from the issuance of common shares, net of share issuance costs	499,575
Capital expenditures (cash)	(139,066)
Operating activities	(11,183)
Other	(4,381)
Working capital, September 30, 2011	\$ 706,696

Laricina has sufficient working capital to finance the anticipated capital and operating spending program remaining in 2011 of approximately \$145.2 million which will be focused primarily on the continued construction of the Germain CDP, Saleski pilot and project infrastructure. Working capital will also be used for the advancement of expansion phases at Saleski and Germain, and for general corporate purposes.

The anticipated 2012 capital and operating spending program is \$402.6 million. Approximately 45 percent of the 2012 capital program is directly associated with the Germain CDP and 11 percent is tied to the advancement of the Saleski Phase 1 project, the timing of which will be dependent on the results from the Saleski pilot. The balance of the spending includes the operations of the Saleski pilot, the development of future phases at Saleski and Germain, infrastructure, studies, other corporate capital and general and administrative expenses.

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



Investments

The Company's cash is currently held in a business operating account with 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 1.2 to 1.6 percent. The Company may invest in Canadian government securities or fixed-term and bankers' acceptance investments with a minimum A rating.

Debt Financing

Laricina has a demand credit facility of \$15.0 million with a major Canadian bank which has been extended to October 31, 2012 and is secured by a deposit of cash. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At September 30, 2011 and the date of this report, the Company had letters of credit totalling \$9.9 million and \$11.1 million, respectively, outstanding under this credit facility related to the development of the Germain and Saleski projects.

As projects are advanced to the commercial development phase, Laricina will evaluate the markets for prudent interim or long-term debt funding alternatives.

Commitments and Contractual Obligations

As of the date of this report, the Company has contractual obligations for office space, communication equipment and agreements, drilling rig rentals, natural gas purchases, camp facilities and other obligations as follows:

<i>(thousands of dollars)</i>	Office	Field
2011 remainder	\$ 476	\$ 2,131
2012	2,819	11,929
2013	2,819	9,994
2014	2,835	5,355
2015 and thereafter	2,358	1,435

As at September 30, 2011, the Company had issued letters of credit totalling \$9.9 million to a third-party supplier of utilities to support the ongoing development of the Saleski and Germain projects. If the development of these projects is interrupted the Company will be required to reimburse the costs incurred by the third-party partner up to \$9.9 million. The above letters of credit of \$9.3 million and \$0.6 million are renewable on June 30, 2012 and December 31, 2012, respectively.

Subsequent to September 30, 2011 the Company issued letters of credit for \$1.2 million.

As at November 3, 2011, the Company has \$59.6 million of purchase commitments outstanding which relate to the acquisition of long-lead equipment for the Germain CDP.



Outstanding Share Data

At October 31, 2011, share capital consisted of the following:

(thousands)

Common shares	64,207
Stock options	3,493
Performance share units	679
Performance warrants	4,071
Total outstanding	72,450

Critical Accounting Estimates

A discussion of the Company's significant accounting policies is contained in Note 3 of the accompanying notes to the unaudited condensed consolidated interim financial statements for the period ended September 30, 2011.

Changes in Accounting Policies

In February 2008, the Canadian Institute of Chartered Accountants Accounting Standards Board confirmed the adoption of IFRS for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011. In July 2009, the International Accounting Standards Board approved additional IFRS transitional exemptions for entities to allocate their oil and natural gas asset balances under full cost accounting to the IFRS categories of exploration and evaluation assets, and development and producing properties. This exemption provides entities with relief from significant adjustments to oil and natural gas assets resulting from the retrospective adoption of IFRS. Laricina has used this exemption upon adoption.

The most significant impact of the IFRS conversion is the accounting for exploration and evaluation assets, and property, plant and equipment. IFRS does not provide specific oil and natural gas accounting guidance other than for costs incurred during the exploration and evaluation phase. The conversion to IFRS will have a significant impact on the future accounting for costs related to the pre-exploration and development phases as well as the level at which impairment tests are performed and the methodology used in testing impairment.

Other differences between Canadian GAAP and IFRS include the treatment of site restoration provisions (asset retirement obligations), share-based payments (stock-based compensation) and other first-time adoption exemptions. The impact on the Company's January 1, 2010 opening financial position, required under IFRS for comparative purposes, statements, was as follows: an increase in site restoration provisions of \$0.4 million; an increase in share capital of \$3.0 million as a result of the change in accounting for flow-through shares issued prior to the date of conversion; and an increase in contributed surplus of \$1.3 million as a result of the adjustments to accounting for share-based payments. Each of these adjustments has a corresponding change to retained earnings as well as a future income tax impact.

The adoption of IFRS accounting policies has resulted in higher share-based payment expense at the time of grant due to the recognition of the expense related to each tranche being treated as a



separate grant with a different vesting date and fair value. Under Canadian GAAP, the expense was recognized on a straight-line basis. In addition, amortization has increased due to the component amortization required under IFRS.

Risk Management

Risk factors remain substantially unchanged from December 31, 2010. 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 2010.

Outlook

With the additional gross proceeds of \$519.7 million from equity private placements during 2011, Laricina has flexibility to manage the pace of development including the Germain CDP and the Saleski Phase 1 expansion and manage costs. Laricina will continue to monitor the capital markets and consider a full range of financing strategies to provide the funds necessary to advance its projects, such as private or public equity, asset sales, debt and participation agreements with other oil sands development companies or joint venture agreements.

Reservoir steaming will continue throughout the remainder of 2011 at the Saleski pilot. The Company is evaluating options for additional well-pairs at the Saleski pilot to further optimize well performance. The second stage of solvent-cyclic SAGD will commence once longer term conventional SAGD performance has been established.

The fourth quarter of 2011 will include additional activities for the regulatory review process and completion of front-end engineering and design of the Saleski Phase 1 expansion. The regulatory application for the Saleski Phase 1 expansion was filed in December 2010 for which approval is expected by mid-year 2012.

Construction activities related to the Germain CDP will continue throughout the fourth quarter of 2011 including the remaining engineering, module fabrication, electrical infrastructure and drilling of the remaining lateral sections for the six well-pairs. The Germain CDP is anticipated to start initial steaming during the first half of 2013.

During the remainder of 2011 and throughout 2012, additional expertise will be required to complete and execute Germain CDP, accommodate the increased production expected from the Saleski pilot and further advance additional phases of development at Saleski and Germain. This expertise will be obtained from a combination of additional head office and field employees as well as consultants. General and administrative expenses are expected to increase as a result of additional salary expense and costs associated with the expansion of office space which occurred in the third quarter of 2011.

The remaining 2011 capital and operating expenditures (including cash general and administrative expenses) are expected to be approximately \$145.2 million with the majority of the costs resulting from the advancement of the Germain CDP.



Condensed Consolidated Statements of Financial Position

(Unaudited)

As at <i>(thousands of dollars)</i>	Note	September 30 2011	December 31 2010
Assets			
Current assets			
Cash and cash equivalents	11	\$ 744,212	\$ 375,426
Trade and other receivables		4,810	17,030
Prepaid expenses and deposits		861	449
Inventories	5	2,740	254
		752,623	393,159
Non-current assets			
Abandonment deposits		903	507
Other long-term	6	1,194	551
Exploration and evaluation	7	565,023	425,806
Property, plant and equipment	8	45,234	30,705
Intangible	9	8,204	-
		620,558	457,569
Total assets		\$ 1,373,181	\$ 850,728
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		\$ 40,927	\$ 31,408
Finance lease obligation	8	5,000	-
		45,927	31,408
Non-current liabilities			
Site restoration provision	10	13,998	4,747
Finance lease obligation	8	8,980	-
Deferred income tax		11,870	16,777
		34,848	21,524
Total liabilities		80,775	52,932
Shareholders' equity			
Share capital	12	1,286,294	780,198
Contributed surplus		26,468	21,771
Deficit		(20,356)	(4,173)
Total shareholders' equity		1,292,406	797,796
Total liabilities and shareholders' equity		\$ 1,373,181	\$ 850,728

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



Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(thousands of dollars)	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2011	2010	2011	2010
Revenue					
Blend sales		\$ 809	\$ -	\$ 1,064	\$ -
Royalties		(25)	-	(33)	-
		784	-	1,031	-
Expenses					
Transportation and blending		493	-	846	-
Operating		4,408	-	6,725	-
Pre-exploration		(21)	-	216	-
General and administrative		4,189	1,876	11,346	5,768
Amortization		1,692	451	3,930	711
		10,761	2,327	23,063	6,479
Results from operating activities		(9,977)	(2,327)	(22,032)	(6,479)
Finance income		2,622	912	4,776	1,137
Finance expenses	8,10	(338)	(29)	(1,043)	(89)
Net finance income		2,284	883	3,733	1,048
Net loss before income tax		(7,693)	(1,444)	(18,299)	(5,431)
Deferred income tax recovery		(1,604)	(180)	(2,116)	(831)
Total comprehensive loss		\$ (6,089)	\$ (1,264)	\$ (16,183)	\$ (4,600)

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



Condensed Consolidated Statements of Changes in Equity

(Unaudited)

<i>(thousands of dollars)</i>	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2010	\$ 447,872	\$ 17,484	\$ (289)	\$ 465,067
Comprehensive loss	-	-	(4,600)	(4,600)
Issue of common shares	326,226	-	-	326,226
Share issue costs, net of tax of \$2,877	(8,630)	-	-	(8,630)
Share-based payments	-	4,748	-	4,748
Performance share units exercised	1,237	(1,236)	-	1
Balance at September 30, 2010	766,705	20,996	(4,889)	782,812
Comprehensive income	-	-	716	716
Issue of common shares	13,424	-	-	13,424
Share issue costs, net of tax of \$205	(617)	-	-	(617)
Share-based payments	-	1,318	-	1,318
Options exercised	196	(53)	-	143
Performance share units exercised	490	(490)	-	-
Balance at December 31, 2010	780,198	21,771	(4,173)	797,796
Comprehensive loss	-	-	(16,183)	(16,183)
Issue of common shares	519,682	-	-	519,682
Share issue costs, net of tax of \$5,026	(15,082)	-	-	(15,082)
Share-based payments	-	6,192	-	6,192
Performance share units exercised	1,496	(1,495)	-	1
Balance at September 30, 2011	\$ 1,286,294	\$ 26,468	\$ (20,356)	\$ 1,292,406

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



Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the nine months ended September 30

(thousands of dollars)

	2011	2010
Cash flows from operating activities		
Loss for the period	\$ (16,183)	\$ (4,600)
Adjustments for:		
Amortization	3,930	711
Equity settled share-based payments	2,965	1,937
Unwinding of site restoration discount	253	89
Deferred income tax recovery	(2,116)	(831)
Deferred income	(32)	(32)
	(11,183)	(2,726)
Change in trade and other receivables	3,392	51
Change in prepaid expenses and deposits	(143)	38
Change in inventories	(1,418)	-
Change in trade and other payables	526	(147)
Net cash used in operating activities	(8,826)	(2,784)
Cash flow from investing activities		
Property, plant and equipment, and exploration and evaluation expenditures	(115,022)	(77,580)
Intangible expenditures	(5,667)	-
Abandonment deposits	(396)	(2)
Net cash used in investing activities	(121,085)	(77,582)
Cash flow from financing activities		
Proceeds from the issue of common shares	519,683	326,226
Finance lease obligation	(1,020)	-
Share issue costs	(19,966)	(11,362)
Net cash from financing activities	498,697	314,864
Net increase in cash and cash equivalents	368,786	234,498
Cash and cash equivalents, beginning of period	375,426	156,062
Cash and cash equivalents, end of period	\$ 744,212	\$ 390,560

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



Notes to the Condensed Consolidated Interim Financial Statements September 30, 2011

(Unaudited)

(tabular amounts in thousands of 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 nine months ended September 30, 2011 are comprised of 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. Currently, two areas have been identified as near-term commercial projects, Germain and Saleski. The Company will require equity and debt financing to continue to commerciality.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements which were prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP) and are included in the Company's Annual Report for 2010.

2. Basis of Preparation

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and prepared by the Company in accordance with International Financial Reporting Standards (IFRS) and IFRS 1 *First-Time Adoption of International Financial Reporting Standards* applied effective January 1, 2011. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 18.

On November 3, 2011, the September 30, 2011 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 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 discussed in note 4.



Functional and presentation currency

The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. Financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts and if otherwise stated.

Use of estimates and judgments

The preparation of condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates. Significant estimates used in the preparation of the condensed consolidated interim financial statements include, but are not limited to, the recovery of exploration and evaluation assets (note 7), the valuation of property, plant and equipment (note 8), site restoration provisions (note 10), and the measurement of share-based payments (note 12).

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and have been applied consistently by the Company and its subsidiaries.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when a Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Many of the Company's oil sands activities involve jointly controlled assets. The condensed consolidated interim financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

Exploration and evaluation assets (E&E)

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



3. Summary of Significant Accounting Policies (continued)

E&E assets are not depleted or amortized until the earlier of: (1) the asset is in use as management intended; and (2) the determination of technical feasibility and commercial viability of extracting a mineral resource. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determined when proven reserves exist. E&E assets are allocated to cash generating units (CGUs) for purposes of determining whether or not the assets must be transferred to the development and producing category within Property, Plant and Equipment and for performing impairment testing when indicators of impairment exist. The Company uses the following CGUs for E&E assets: Saleski, Germain, Burnt Lakes and Other. A review of each exploration project is performed, at least annually, to determine whether proven reserves have been discovered. Upon determination of proven reserves, E&E assets attributable to these reserves are tested for impairment with the associated CGU and then transferred to Development and Producing (D&P) assets.

E&E assets that are in use as management intended are amortized and recapitalized as intangible assets until technical feasibility and commercial viability of extracting a mineral resource can be determined. Once technical feasibility and commercial viability are established the underlying intangible asset is transferred to D&P assets and subsequently depleted.

Other E&E assets are amortized when they are used to support the production of reservoir information gathering including facilities and other infrastructure. The amortization of these assets is recognized in profit or loss.

Property, plant and equipment

Property, plant and equipment consists of oil sands assets which have transferred from E&E assets to D&P assets, facilities and other equipment, and corporate assets.

D&P assets consist of oil sands assets and are measured at cost less accumulated amortization and depletion. The cost of D&P at January 1, 2010, the date of transition to IFRS, was determined as provided by IFRS 1 exemption whereby oil and gas companies using full cost accounting could allocate carrying values of E&E assets to CGUs based on amounts determined under Canadian GAAP and allocate carrying values of D&P assets to appropriate CGUs using pro-rata reserve volumes or reserve values. The Company has allocated E&E assets to CGUs based on amounts previously determined under Canadian GAAP, with no value assigned to the D&P assets at January 1, 2010 as no projects have met the criteria of technical feasibility and commercial viability.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of D&P assets are recognized as property, plant and equipment only when they increase the future economic benefits embodied in the specific asset to which they are related. All other expenditures are recognized as an expense when incurred. Such costs generally represent costs incurred in developing proved or probable reserves and bringing in or enhancing production from such reserves, and accumulated on a project area basis. The carrying amount of any



replaced or sold components is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of an E&E asset or property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the E&E asset or property, plant and equipment, and are recognized on a net basis within other income or other expense in profit or loss.

Amortization and depletion

The net carrying value of E&E assets is amortized on a straight-line basis over the estimated useful lives between 10 and 20 years. E&E assets which gather information about the reservoir to assist in the development of technical feasibility and commercial viability of extracting mineral resources are recapitalized as intangible assets and subsequently transferred to D&P assets when proven reserves are assigned.

The net carrying value of D&P assets is depleted using the unit-of-production method which uses the ratio of production to the related total proven and probable reserves, taking into account the future development costs necessary to bring these reserves into production. The estimate of future development costs is reviewed by independent reserve engineers on an annual basis.

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

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

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

For facilities and other equipment, amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of 25 years. For corporate assets, amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives at annual rates of between 20 and 30 percent.



3. Summary of Significant Accounting Policies (continued)

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

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

Inventories

Inventories consist of materials, condensate, production blend and other inventory. Materials inventory is materials, parts and supplies and is valued at the lower of cost or net realizable value with cost determined using a first-in, first-out basis. Condensate inventory is condensate purchases for the purpose of blending and is valued at the lower of cost or net realizable value with cost determined using a weighted-average cost. Production blend inventory is produced bitumen that has been blended for purposes of transporting the product to market and is value at the lower of cost or net realizable value with cost determined using a weighted-average cost. Other inventory consists primarily of gravel for use in road maintenance and site preparation, and is valued at the lower of cost or net realizable value with cost determined using a weighted-average cost.

Leased assets

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

Other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Impairment

A financial asset is assessed at each reporting date to determine if there is any objective evidence that it is impaired. Impairment is considered to exist if objective evidence indicates that one or more events would have a negative effect on the estimated future cash flows of that asset. Significant financial assets are tested for impairment on an individual basis with the remaining financial assets assessed in groups that share similar credit risk. An impairment loss of a financial asset is recognized in profit or loss and is calculated as the difference between carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred income tax assets, are reviewed at each reporting period for indications of impairment. If an indication of impairment exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to D&P assets and if facts and circumstances suggest that the



carrying amount exceeds the recoverable amount. For the purposes of impairment testing, assets are grouped into the smallest group of assets that generates independent cash inflows from continuing use or CGU. The recoverable amount of the asset or the CGU is the greater of its value-in-use or its fair value less costs to sell. The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount is determined for the CGU to which the corporate asset is allocated.

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

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

The Company assesses the recoverability of E&E assets, before and at the moment of reclassification to property, plant & equipment using E&E CGUs. After the reclassification to property, plant and equipment on the basis of technical feasibility and commercial viability, development and producing CGUs are used for impairment testing.

Site Restoration Provision

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is determined by discounting the expected future cash flows at a rate that reflects the current assessment of the time-value-of-money and the risks specific to the underlying liability. The Company recognizes a provision for site restoration obligations as the activities of the Company give rise to dismantling, decommissioning and site disturbance remediation requirements. A provision is made for the estimated cost of site restoration with a corresponding increase to the related exploration and evaluation asset or property, plant and equipment. Site restoration costs are amortized on a basis consistent with the related asset's amortization and depletion policy.

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



3. Summary of Significant Accounting Policies (continued)

Share-based payment arrangements

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

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

Revenue

Revenue from the sale of bitumen is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, typically when legal title passes to an external property. This is generally at the time the product enters the pipeline.

Finance income and finance costs

Finance income is recognized as it accrues using the effective interest method. Finance expense includes the unwinding of the discount on site restoration provision and interest associated with finance leases.

Income tax

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

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

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



Share capital

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

Earnings per share

Basic net profit (loss) per common share is calculated using the weighted-average number of common shares issued and outstanding during the period. The Company uses the treasury stock method to determine the dilutive effect of performance warrants, stock options and performance share units.

Financial instruments

All financial instruments are recognized in the statement of financial position initially at fair value. Subsequent measurement of all financial assets and liabilities except those at fair value through profit or loss and available-for-sale are measured at amortized cost determined using the effective interest rate method. Cash and Cash Equivalents comprise cash balances and guaranteed investment certificates that may be redeemed at the option of the Company. Trade and Other Receivables, Prepaid Expenses and Deposits are classified as loans and receivables while Trade and Other Payables are classified as other financial liabilities and the fair values approximate their carrying value due to the short-term nature of these instruments. The Company has not designated any financial instruments as available-for-sale.

New standards and interpretations not yet adopted

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2011, and have not been applied in preparing these condensed consolidated interim financial statements. None are expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 *Financial Instruments*, which will be adopted on January 1, 2013 and is expected to impact the classification and measurement of financial assets. The extent of the impact to the Company's consolidated financial statements has not been determined.

4. 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 based on 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.



4. Determination of Fair Values (continued)

Stock options, performance shares and stock appreciation rights – The fair value is estimated using a Black-Scholes option pricing model based on quoted market prices for the underlying common shares, volatility based on historical prices and published risk-free interest rates.

Level 3 fair value measurement

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

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

Cash, trade and other receivables, and trade and other payables

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated at the present value of the future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2011 and December 31, 2010 the fair value of these balances approximated their carrying value due to their short-term nature.

Stock options, performance share units and stock appreciation rights

The fair value of stock options, performance share units and stock appreciation rights are measured using a Black-Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price, expected volatility, expected life, expected forfeitures, expected dividends and the risk-free interest rate. The carrying value of accrued liabilities for stock appreciation rights has been assessed at a Level 2 fair value measurement as the significant inputs are derived from quoted indices.

5. Inventories

	September 30	December 31
	2011	2010
Condensate	\$ 108	\$ -
Parts	1,566	254
Production blend	98	-
Other	968	-
	\$ 2,740	\$ 254



6. Other Long-Term Assets

At September 30, 2011, the Company had investment tax credits of \$1.2 million (\$0.6 million at December 31, 2010). The investment tax credits resulted from the Canada Revenue Agency's Scientific Research and Experimental Development (SR&ED) program and the Company's applications for 2007, 2008, and 2009 SR&ED expenditures. The after-tax benefit associated with the investment tax credits is approximately \$0.9 million (\$0.4 million at December 31, 2010). The investment tax credits will be used to offset current income taxes payable and begin to expire in 2026.

7. Exploration and Evaluation Assets

Cost

Deemed cost at January 1, 2010	\$	317,669
Additions during the year		108,137
Balance at December 31, 2010		425,806
Additions during the period		143,663
Balance, September 30, 2011	\$	569,469

Amortization

Balance, January 1, 2010	\$	-
Amortization for the year		-
Balance, December 31, 2010		-
Amortization for the period		(4,446)
Balance, September 30, 2011	\$	(4,446)

Carrying amounts

As at January 1, 2010	\$	317,669
As at December 31, 2010	\$	425,806
As at September 30, 2011	\$	565,023

E&E assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. Additions represent the Company's share of the costs incurred on E&E assets during the period. During the period ended September 30, 2011 and the year ended December 31, 2010 no amount was transferred to property, plant and equipment.

In March 2011 the Company began producing bitumen from the Saleski pilot facility. There are no proven reserves assigned to this project and as a result no assets were transferred to property, plant and equipment. Amortization of the pilot facility and related infrastructure has been recorded in profit or loss. The amortization of assets providing additional reservoir information has been recapitalized as intangible assets in accordance with note 9.



7. Exploration and Evaluation Assets (continued)

E&E assets were recognized on transition to IFRS in accordance with IFRS 6 *Exploration and Evaluation of Mineral Resources*.

As at January 1, 2010 an impairment test was performed on all CGUs and no impairment was identified.

On July 19, 2011 the Government of Alberta announced that the Company was selected to receive funding of up to \$10.0 million (gross) under the Innovative Energy Technologies Program for the Saleski pilot. The funds will be recorded as a reduction in the corresponding E&E asset when received.

8. Property, Plant and Equipment

Cost	Facilities and other equipment	Corporate assets	Total
Deemed cost, January 1, 2010	\$ 19,637	\$ 1,368	\$ 21,005
Additions	10,564	1,106	11,670
Balance, December 31, 2010	30,201	2,474	32,675
Additions	15,263	1,288	16,551
Balance, September 30, 2011	\$ 45,464	\$ 3,762	\$ 49,226
Amortization			
Balance, January 1, 2010	\$ -	\$ (784)	\$ (784)
Amortization for the year	(598)	(588)	(1,186)
Balance, December 31, 2010	(598)	(1,372)	(1,970)
Amortization for the period	(1,360)	(662)	(2,022)
Balance, September 30, 2011	\$ (1,958)	\$ (2,034)	\$ (3,992)
Carrying amounts			
As at January 1, 2010	\$ 19,637	\$ 584	\$ 20,221
As at December 31, 2010	\$ 29,603	\$ 1,102	\$ 30,705
As at September 30, 2011	\$ 43,506	\$ 1,728	\$ 45,234

During the nine month period ended September 30, 2011 the Company entered into a contract with a third party to establish a permanent camp at Germain. The Company assumes substantially all of the risks and rewards of ownership and as a result the contract will be classified as a finance lease. As at September 30, 2011 assets held under finance lease have a gross value of \$15.0 million (nil at December 31, 2010) and accumulated amortization of \$0.5 million (nil at December 31, 2010) which is included in facilities and other equipment.



9. Intangible Assets

At September 30, 2011, the Company had intangible assets of \$5.7 million relating to payments made to a third-party provider of power. This fee was paid to expand the availability of power for the Company's future development projects at Germain and Saleski, and will be amortized over the term of the contract with the third-party provider. Amortization will commence once the expansion is complete.

At September 30, 2011, the Company had intangible assets of \$2.5 million relating to the recapitalization of the amortization of E&E assets. During the second quarter of 2011, the Company commenced production from the Saleski pilot facility. There have been no proven reserves assigned to this project; however the pilot is operating as management intended and as a result amortization of the related assets is recognized. The assets which directly contribute to the understanding of the reservoir and assist in the assignment of proven reserves have been amortized and that amortization has been subsequently recorded as an intangible asset.

10. Site Restoration Provision

Balance, January 1, 2010	\$	2,584
Provisions made during the year		1,598
Revisions (change in discount rate)		461
Unwinding of discount		104
Balance, December 31, 2010		4,747
Provisions made during the period		7,154
Revisions (change in discount rate)		1,844
Unwinding of discount		253
Balance, September 30, 2011	\$	13,998

11. Credit Facility

The Company's credit agreement with a Canadian chartered bank is expected to be renewed until October 31, 2012. Amounts drawn under the facility 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. The credit agreement provides a demand credit facility of \$15.0 million and is secured by a deposit of cash equal to the amount of the credit facility. As at September 30, 2011 and November 3, 2011 the Company had issued letters of credit totalling \$9.9 million, and \$11.1 million, respectively, under this credit facility and no amount had been drawn against the facility.



12. 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, 2010	51,916	\$ 780,198
Issued for cash	12,228	519,682
Share issue costs, net of tax benefit	-	(15,082)
Performance share units exercised	63	1,496
Balance, September 30, 2011	64,207	\$ 1,286,294

On October 19, 2010, Laricina closed a private placement of flow-through common shares. In accordance with the terms of the offering and pursuant to the Income Tax Act, the Company has renounced, for income tax purposes, exploration expenditures of \$15.7 million to holders of the common shares effective December 31, 2010. The Company has incurred the associated qualifying expenditures.

On June 29, 2011, Laricina closed a private placement of 8,928,709 common shares at a price of \$42.50 per common share for gross proceeds of \$379.5 million (\$365.8 million net of share issue costs).

During the third quarter, Laricina closed additional private placements for 3,299,119 common shares at a price of \$42.50 per common share for gross proceeds of \$140.2 million (\$133.8 million net of share issue costs).

Performance Warrants

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



	Number (thousands)		Weighted Average Exercise Price
Outstanding, September 30, 2011 and December 31, 2010	4,071	\$	11.20
Exercisable, September 30, 2011	4,071	\$	11.20

The fair value calculation for performance warrants was not required during the period ended September 30, 2011 and September 30, 2010 as no performance warrants were issued or required a change in measurement.

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, 2010	3,083	\$	13.50
Granted	411		36.00
Forfeited	(4)		32.50
Outstanding, September 30, 2011	3,490	\$	16.13
Exercisable, September 30, 2011	2,468	\$	10.88

For the three and nine month periods ended September 30, 2011, compensation cost of \$1.0 million (\$0.5 million in 2010) and compensation cost of \$2.7 million (\$1.5 million in 2010), respectively, has been recognized for options that have been granted. During the three and nine month periods ended September 30, 2011, \$0.5 million (\$0.3 million in 2010) and \$1.5 million (\$0.8 million in 2010), respectively, was capitalized.

A forfeiture rate of 2.0 percent (2.0 percent in 2010) was used when recording share-based payments related to the stock options. Expected volatility is based on historical volatility adjusted for changes expected due to publicly available information. Expected life is based on general option holder behavior and the risk-free interest rate is based on government bonds of a similar life.



12. Share Capital (continued)

Performance Share Unit Plan

The Company has a Performance Share Unit Plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of performance share units (PSUs). PSUs have an exercise price of \$0.01 per PSU and vest on dates determined by the Board of Directors at the time of grant, and for each PSU exercised the holder will receive one common share. The PSUs outstanding at September 30, 2011, have a weighted average remaining contractual life of 5.2 years.

	Number (thousands)	Weighted Average Exercise Price
Outstanding, December 31, 2010	555	\$ 0.01
Granted	187	0.01
Exercised	(63)	0.01
Forfeited	(1)	0.01
Outstanding, September 30, 2011	678	\$ 0.01
Exercisable, September 30, 2011	150	\$ 0.01

For the three and nine month periods ended September 30, 2011, compensation cost of \$1.1 million (\$0.7 million in 2010) and \$3.5 million (\$3.2 million in 2010), respectively, has been recognized for PSUs that have been granted. For the three and nine month periods ended September 30, 2011, \$0.6 million (\$0.4 million in 2010) and \$1.9 million (\$1.8 million in 2010) was capitalized, respectively.

A forfeiture rate of 2.0 percent (0.8 percent in 2010) was used when recording share-based payments related to the performance share units. Expected volatility is based on historical volatility adjusted for changes expected due to publicly available information. Expected life is based on general option holder behavior and the risk-free interest rate is based on government bonds of a similar life.

Share Appreciation Rights

The Company has established 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 (SAR) 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 share appreciation rights is two years.



	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2010	36	\$	26.88
Granted	57		35.67
Exercised	(8)		26.53
Forfeited	(3)		30.00
Outstanding, September 30, 2011	82	\$	32.93
Exercisable, September 30, 2011	8	\$	26.65

All share appreciation rights were granted to employees directly involved in field activities. For the three and nine month periods ended September 30, 2011, compensation cost of \$0.2 million, and \$0.2 million, respectively on share appreciation rights that have been granted (nominal in 2010). At September 30, 2011, the Company had recorded an accrued liability of \$0.2 million (\$0.1 million at December 31, 2010) for outstanding share appreciation rights. At September 30, 2011, the Company had an obligation of \$0.2 million (nil at December 31, 2010) for stock appreciation rights that had vested.

The estimated fair value of share appreciation rights for the period ended September 30, 2011 was calculated at the date of grant using the Black-Scholes model and the following weighted average assumptions:

		2011
Fair value per SAR	\$	6.62
Share price	\$	35.67
Exercise price	\$	35.67
Expected volatility (percent)		29.5
Average risk-free interest rate (percent)		1.7
Expected life (years)		2.1

A forfeiture rate of 10.0 percent (10.0 percent in 2010) was applied for grants issued during the period ended September 30, 2011, when recording share-based payments related to the share appreciation rights. Expected volatility is based on historical volatility adjusted for changes expected due to publicly available information. Expected life is based on general option holder behavior and the risk-free interest rate is based on government bonds of a similar life.



13. Loss per Share

Basic loss per share

The calculation of basic loss per share at September 30, 2011 was based on the loss attributable to common shareholders of \$16.2 million (\$4.6 million in 2010) and a weighted average number of common shares outstanding during the nine month period ended September 30, 2011. The weighted average number of common shares outstanding was calculated as follows:

<i>(thousands of shares)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Issued common shares at beginning of period	60,906	40,522	51,916	40,480
Effect of common shares issued	1,611	9,105	3,585	3,068
Effect of PSUs exercised	-	-	41	26
Weighted average common shares outstanding (basic)	62,517	49,627	55,542	43,574

Diluted loss per share

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

The basic and diluted loss per share was \$0.10 and \$0.29 for the three and nine month periods ended September 30, 2011, respectively, compared to a basic and diluted loss per share of \$0.03 and \$0.11 for the three and nine month periods ended September 30, 2010, respectively.

14. Personnel Expenses

The aggregate payroll expense of employees and executive management are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Wages and salaries	\$ 3,084	\$ 1,706	\$ 8,394	\$ 4,784
Benefits and other personnel costs	664	404	2,168	1,035
Share-based payments	2,495	1,567	6,326	4,512
Total remuneration	6,243	3,677	16,888	10,331
Capitalized portion of total remuneration	(2,931)	(2,183)	(8,554)	(6,139)
	\$ 3,312	\$ 1,494	\$ 8,334	\$ 4,192

Personnel expenses directly related to exploration and evaluation activities have been capitalized and included in exploration and evaluation assets.



15. Operating Leases

Non-cancellable operating lease rentals as at September 30 are payable as follows:

	2011		2010	
Less than one year	\$	7,110	\$	4,543
Between one and five years		17,745		4,336
More than five years		-		-
	\$	24,855	\$	8,879

16. Executive Compensation

In addition to salaries, the Company provides non-cash benefits to executive officers. The executive officers include the Chief Executive Officer, Senior Vice President In Situ and Exploration, Vice President Finance and Controller, Vice President Enhanced Oil Recovery, Vice President Corporate Development, Vice President Production, and Vice President Facilities. Executive officers also participate in the Company's stock option and performance share unit plans.

Executive officer compensation is comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30					
	2011	2010	2011	2010				
Salaries	\$	459	\$	409	\$	1,376	\$	1,226
Other short-term employment benefits		245		245		743		673
Share-based payments		435		442		1,412		1,149
	\$	1,139	\$	1,096	\$	3,531	\$	3,048

Share-based payments represent the amortization of compensation associated with grants of stock options and performance share units to executive officers as recorded in the financial statements.

17. Financial Risk Management

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



17. Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. This credit exposure is mitigated through credit practices that limit transactions according to counterparties' credit quality. A substantial portion of the Company's trade and other receivables is with a small number of joint venture partners in the oil and natural gas industry and is subject to normal industry credit risk and resolution processes under the joint venture agreements. Laricina has historically not experienced any collection issues and joint venture receivables are typically collected within one month of the joint venture bill being issued.

The Company does not anticipate any default as it transacts with creditworthy customers and management does not expect any losses from non-performance, as a result no provision for doubtful accounts has been recorded at September 30, 2011 (no amount recorded at December 31, 2010).

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk was:

	September 30	December 31
	2011	2010
Cash and cash equivalents	\$ 744,212	\$ 375,426
Trade and other receivables	4,810	17,030
	\$ 749,022	\$ 392,456

The maximum exposure to credit risk for trade and other receivables by type of customer was:

	September 30	December 31
	2011	2010
Joint venture partners	\$ 1,428	\$ 9,571
Other	3,382	7,459
	\$ 4,810	\$ 17,030

The Company's most significant receivable with a single joint venture partner, was for \$1.4 million at September 30, 2011 (\$9.6 million at December 31, 2010).



The Company's trade and other receivables were aged based on invoice date and all were classified as current (less than 30 days) as at September 30, 2011 and December 31, 2010.

Liquidity Risk

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

As at September 30, 2011, cash was held in a fully-liquid, interest-bearing operating account and Laricina had \$15.0 million available in the bank credit facility to manage its expenditures, if necessary. Trade and Other Payables are expected to be paid within one month.

Market Risk

Market risk is the risk that the value of financial instruments or future cash flows will fluctuate due to movements in market prices, such as commodity prices. Oil prices, natural gas prices and heavy oil differentials fluctuate significantly in response to regional, national and global supply and demand factors beyond the control of Laricina. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Prices for oil are determined in global markets and generally denominated in US dollars. The exchange rate effect can not be quantified but generally an increase in the Canadian dollar as compared to the US dollar reduces the price received for oil.

Capital Management

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

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

The Company's capital management objectives remained unchanged during the period ended September 30, 2011. Laricina is not subject to externally imposed capital restrictions; however the credit facility referred to in note 11 is secured by a deposit of cash equal to the amount of the credit facility.



18. Reconciliation from Canadian GAAP to IFRS

Condensed Consolidated Statements of Financial Position at the end of the last reporting year under Canadian GAAP – September 30, 2010

<i>(thousands of dollars)</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		\$ 390,560	\$ -	\$ 390,560
Trade and other receivables		9,626	-	9,626
Prepaid expenses and deposits		407	-	407
		400,593	-	400,593
Non-current assets				
Abandonment deposits		360	-	360
Other long-term assets		244	-	244
Exploration and evaluation assets	a	-	390,878	390,878
Property, plant and equipment	a	421,874	(391,517)	30,357
		422,478	(639)	421,839
Total assets		\$ 823,071	\$ (639)	\$ 822,432
Liabilities and shareholders' equity				
Current liabilities				
Trade and other payables		\$ 18,896	\$ (86)	\$ 18,810
Non-current liabilities				
Site restoration provision	b	3,268	1,121	4,389
Deferred revenue		-	-	-
Deferred tax	f	17,441	(1,019)	16,422
		20,709	102	20,811
Total liabilities		39,605	16	39,621
Shareholders' equity				
Share capital	e	763,814	2,891	766,705
Contributed surplus	c	19,755	1,241	20,996
Retained earnings (deficit)		(103)	(4,787)	(4,890)
Total shareholders' equity		783,466	(655)	782,811
Total liabilities and shareholders' equity		\$ 823,071	\$ (639)	\$ 822,432



Statement of Consolidated Financial Position at the end of the last reporting year under Canadian GAAP – December 31, 2010

<i>(thousands of dollars)</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash		\$ 375,426	\$ -	\$ 375,426
Trade and other receivables		17,030	-	17,030
Prepaid expenses and deposits		449	-	449
Inventory		254	-	254
		393,159	-	393,159
Non-current assets				
Abandonment deposits		507	-	507
Other long-term assets		551	-	551
Exploration and evaluation assets	<i>a</i>	-	425,806	425,806
Property, plant and equipment	<i>a, d</i>	457,787	(427,082)	30,705
		458,845	(1,276)	457,569
Total assets		\$ 852,004	\$ (1,276)	\$ 850,728
Liabilities and shareholders' equity				
Current liabilities				
Trade and other payables		\$ 29,229	\$ 2,179	\$ 31,408
Non-current liabilities				
Site restoration provision	<i>b</i>	3,695	1,052	4,747
Deferred revenue		-	-	-
Deferred tax		18,170	(1,393)	16,777
		21,865	(341)	21,524
Total liabilities		51,094	1,838	52,932
Shareholders' equity				
Share capital	<i>e</i>	779,544	654	780,198
Contributed surplus	<i>c</i>	20,472	1,299	21,771
Retained earnings (deficit)		894	(5,067)	(4,173)
Total equity		800,910	(3,114)	797,796
Total liabilities and shareholders' equity		\$ 852,004	\$ (1,276)	\$ 850,728



18. Reconciliation from Canadian GAAP to IFRS (continued)

Reconciliation of Condensed Consolidated Statements of Comprehensive Loss for the nine month period ended September 30, 2010

<i>(thousands of dollars)</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses				
General and administrative	c	\$ 5,799	\$ (31)	\$ 5,768
Amortization		415	296	711
Results from operating activities		6,214	265	6,479
Finance income		1,137	-	1,137
Finance expenses	b	-	(89)	(89)
Net finance income		1,137	(89)	1,048
Loss before income tax		(5,077)	(354)	(5,431)
Deferred income tax recovery	f	(735)	(96)	(831)
Total comprehensive loss		\$ (4,342)	\$ (258)	\$ (4,600)

Reconciliation of Condensed Consolidated Statements of Comprehensive Loss for the three month period ended September 30, 2010

<i>(thousands of dollars)</i>	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses				
General and administrative	c	\$ 1,882	\$ (6)	\$ 1,876
Amortization		155	296	451
Results from operating activities		2,037	290	2,327
Finance income		912	-	912
Finance expenses	b	-	(29)	(29)
Net finance income		912	(29)	883
Loss before income tax		(1,125)	(319)	(1,444)
Deferred income tax recovery	f	(99)	(81)	(180)
Total comprehensive loss		\$ (1,026)	\$ (238)	\$ (1,264)



Notes to the reconciliation from Canadian GAAP to IFRS:

(a) IFRS 1 election for full cost oil and gas entities

The Company elected an IFRS 1 exemption whereby the Canadian GAAP full cost pool was measured upon transition to IFRS as follows:

- i. Exploration and evaluation assets were reclassified from the full cost pool to exploration and evaluation assets at the amount previously recorded under Canadian GAAP.
- ii. No amounts were allocated to the development and producing assets as technical feasibility and commercial viability has not been established at the date of transition.

(b) Site restoration provision

Under Canadian GAAP asset retirement obligations were discounted at a credit adjusted risk-free rate of between 4.5 and 5.1 percent. Under IFRS the estimated cash flows for site restoration has been risk adjusted therefore the provision is discounted at a risk-free rate and reevaluated at each reporting period. Upon transition to IFRS this resulted in an increase in the site restoration provision with a corresponding decrease in retained earnings.

Under Canadian GAAP unwinding of the discount was capitalized as Laricina is a pre-operational company. Under IFRS, the unwinding of discount is included as a finance expense.

(c) Share-based payments

Under Canadian GAAP, the Company recognized an expense related to their share-based payments on a straight-line basis through the date of vesting and accounted for forfeitures as they occurred. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

(d) Amortization

When significant components of E&E or property, plant and equipment, have different useful lives they are accounted for and amortized as separate items. Certain assets became available for use during 2010 and were subject to amortization.

(e) Flow-through shares

Under Canadian GAAP, the Company recorded flow-through shares at the amount received on issuance. Under IFRS, the Company is required to record the flow-through shares at the value of common shares and a liability associated with the premium received for sale of tax pools to the investor.

(f) Deferred income tax liability and deferred income tax recovery

Deferred income tax liability and deferred income tax recovery was calculated based on the adjustments previously mentioned.

Material adjustments to the condensed consolidated statements of cash flows during 2010

There are no material differences between the statements of cash flows presented under IFRS and the statements of cash flows presented under previous Canadian GAAP.



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Corporate Information

Senior Management

Glen C. Schmidt
President and CEO

David J. Theriault
Senior Vice President In Situ and Exploration

Neil R. Edmunds
Vice President Enhanced Oil Recovery

Karen E. Lillejord
Vice President Finance and Controller

Marla A. Van Gelder
Vice President Corporate Development

Derek A. Keller
Vice President Production

George C. Brindle
Vice President Facilities

Directors

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Jonathan C. Farber^{2, 3}
Managing Director, Lime Rock Partners

S. Barry Jackson^{3, 4C}
Chairman, TransCanada Corporation

Gordon J. Kerr^{2, 4}
President and CEO, Enerplus Corporation

Robert A. Lehodey, Q.C.^{3C, 4}
Partner, Osler, Hoskin & Harcourt LLP

Brian K. Lemke^{1, 2C}
Independent Investor

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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