Q3
2012 Interim Report

LARICINA
ENERGY LTD.

During the third quarter, Laricina continued its transformation from a pre-production oil sands company to a producer. Having demonstrated production, the Saleski pilot continues to reach various milestones – including producing its 100,000th gross barrel of bitumen – while providing additional information required to advance our commercial development in the Grosmont carbonates. At Germain, we remain on schedule and on budget, and continue to target mid-2013 for the start-up of our commercial demonstration project (CDP) in the Grand Rapids sands formation.

Laricina is leading the development of the Grosmont carbonate formation. This is central to the Company's development plan, but is also significant to Alberta's economy and its role in supporting Canada's sustained economic well-being. The Grosmont carbonate formation is Alberta's second largest oil-bearing resource, behind the McMurray sands, to date Alberta's primary source of oil sands development. Achieving increasing production volume at our Saleski pilot is demonstrating the viability of the Grosmont carbonate formation and is, in turn, unlocking its economic value. As we advance our plans toward commercial development, we foresee the Grosmont contributing significant future production to the Company and the industry as a whole.

Third Quarter 2012 Highlights

- At Saleski:
  - Advancing commercialization of the C zone of the Grosmont formation;
    - Injected solvent with steam during the last cycle in the initial producer C zone (P1C) wellbore using a cyclic process. The production cycle commenced subsequent to the quarter;
    - Completed second production cycle in the second producer C zone (P2C) wellbore;
  - Understanding the D zone Grosmont formation;
    - Initiated first injection cycle in the second injector D zone (I2D) wellbore, an undisturbed portion of the reservoir. The production cycle commenced subsequent to the quarter;
    - Test results have shown evidence of localized temperature and pressure communication between the C and D zones of the Grosmont formation, which is positive;
  - Subsequent to quarter-end, filed a project update to the Saleski 10,700 barrel-per-day Phase 1 regulatory application to reflect the change of well configuration to single horizontal well cyclic steam-assisted gravity drainage (SAGD) from a dual-well SAGD process. Key changes include:

  - Additional steam capacity added to the Saleski Phase 1 facility to support the cyclic process and will allow further testing of various well configurations and process conditions;
  - Expected first steam date for Saleski Phase 1 has been revised to the third quarter of 2015;
  - Solvent injection and recovery remain part of the Phase 1 design and are expected to increase oil production rates and recovery and, over time, to reduce the steam-to-oil ratio (SOR);
- Generated $1.9 million in blended bitumen net sales revenue; and
- Reached the milestone of our 100,000th gross barrel of bitumen produced.

- At Germain:
  - Construction at the Germain CDP remains on time and on budget, with start-up scheduled for the second quarter of 2013;
  - Key developments to quarter-end:
    - Detailed engineering completed;
    - Approximately 60 percent of modules installed;
    - Approximately 80 percent of modules fabrication complete; and
  - Regulatory consultation for the 150,000 barrel-per-day expansion continues as planned. Approval is expected mid-2013.

- Infrastructure:
  - Filed regulatory application for our proposed Stony Mountain Pipeline (SMP);
  - Completed upgrades to bridges on the Al-Pac Road which is the access road to our Germain and Saleski properties; and
  - Main system power made available to the CDP following completion of the Livock electrical substation.

- Corporate:
  - During the quarter, David Theriault retired from his position as Senior Vice President In Situ and Exploration. This resulted in an expanded role for Mark Montemurro as Vice President In Situ and Innovation;
  - Also during the quarter, David Safari joined Laricina's management team as Vice President Facilities;
  - Subsequent to quarter-end, announced the appointment of Dean Setoguchi as Senior Vice President and Chief Financial Officer; and
  - Made capital expenditures of $55.7 million, with working capital at quarter-end of $442.3 million.

Saleski

Beyond answering the principal question of whether we could produce at typical commercial rates from the Grosmont carbonate formation, we have met several other objectives at the Saleski pilot. These included confirming commercially viable drilling and completion methods for the Grosmont

carbonates, advancing optimal well start-up procedures, testing thermal processes, determining the magnitude of interaction between the C and D zones in the Grosmont formation, and testing the efficacy of solvents in the reservoir. We believe we have achieved what we set out to do – and more.

Having concluded that producing from the Grosmont was possible, we set out to prove it is economic. Our several production cycles performed in the C zone continue to provide confidence that a commercial calendar day oil rate (CDOR) is attainable using a commercial well length and design. We are also examining the cyclic process in the D zone, and focusing on the interaction between the C and D zones.

The design for the commercial project at Saleski will be shaped by the pilot. Through our continued work and evaluation of the pilot, we have adjusted our well configuration to single horizontal well cyclic SAGD from a dual-well continuous steaming SAGD process. We have found the unique characteristics of the Grosmont, specifically the high permeability and rapid mobilization of bitumen, responds best to a cyclic process. We have now filed a project update to Saleski's Phase 1 regulatory application, to incorporate the initial commercial development in the Grosmont C zone using single horizontal wells performing cyclic injection and recovery. Timing for first steam at the Saleski Phase 1 expansion is forecast for the third quarter of 2015, to accommodate an additional regulatory review period with approval now expected mid 2013. Capital costs to reflect this change are estimated at $600 million gross (a reduction from our previous estimate of $660 million).

The revised Saleski Phase 1 development plan provides for initial commercial development in the C zone of the Grosmont formation. Phase 1 will also focus on the interaction and communication between the C and D zones and, specifically, on wells drilled in the D zone to capture heat from the lower C zone. As such, wells targeting the D zone will be included in Phase 1 and future development phases.

Phase 1 at Saleski is targeted to achieve gross production of 10,700 barrels per day and will build on the pilot's ongoing work on optimizing production, drilling and completions to further enhance the recovery scheme, including the use of solvents. The projected operating cumulative steam-to-oil ratio (CSOR) is expected to range between 3.5 to less than 3.0. To accommodate both the initial commercial design and future work, the design steam capacity for Phase 1 will accommodate increased flexibility to support a range of operating conditions to allow the testing of various well configurations, optimized use of steam, and production strategies combined with solvent enhancements. The new facility design will thereby provide ample steam capacity and be able to deliver twice the injection pressure of a dual-well SAGD facility. This will greatly reduce the time required to inject increasingly larger cyclic steam volumes and simplify the well design plus provide a variety of operating options within the commercial design.

In October, we received an updated independent economic and resource assessment for Saleski. It encompasses the single horizontal well cyclic SAGD development plan in each of the C and D zones and incorporated the results of the pilot, seismic programs and current laboratory and technical studies. This assessment did not result in any notable changes from the Proforma January 1, 2012

report for the total company resource amounts or economic values, and validates our revised single horizontal well cyclic SAGD development plan while reiterating the economic potential of our Saleski assets. An updated independent resources assessment and economic evaluation on all the Company's assets will be completed at year-end. Laricina anticipates reserve recognition at Saleski in a future resource assessment as confidence in the pilot improves, along with scalability and applicability to the commercial development areas.

Germain

Construction continues at Germain. The 5,000 barrel-per-day CDP remains on budget and on schedule, with a forecast June 2013 start-up. Progress to the end of the third quarter includes approximately 60 percent of modules delivered to site, and the final four well-pairs commenced drilling early in the fourth quarter. The team at Germain has continued to effectively manage costs and timing in Alberta's challenging labour and materials environment.

Future phases at Germain are advancing as well. The second phase, targeting 30,000 barrels-per-day, is progressing through the regulatory process as part of the 150,000 barrel-per-day Environmental Impact Assessment (EIA) filed in November 2011. We anticipate approval of the EIA mid-2013.

We are targeting first steam for second phase at Germain in late 2015. Contingent upon funding and regulatory approval, it is our intention to continue advancing along this timeline towards our goal of achieving installed capacity of 42,500 barrels per day by the end of 2015.

Infrastructure

Final tie-in of the Germain CDP's 22-km fuel gas pipeline to the natural gas transmission system occurred in the third quarter when TransCanada completed the Germain metering station. Also during the third quarter, transmission and distribution systems were connected to the Germain facility's power grid.

The regulatory application for the SMP was completed and filed with the Energy Resources Conservation Board at the end of the third quarter. Consultation with aboriginal groups and communities interested in or involved with the project also progressed during the quarter.

The SMP is a proposed bitumen transportation system that will connect Laricina's commercial projects at Saleski and Germain to the Cheecham Terminal located south of Fort McMurray. Its core pieces are a 200,000 barrel-per-day, 24-inch diameter blended crude bitumen line, a 70,000 barrel-per-day, 12-inch diameter diluent return line, and a tank farm located approximately 2 km northeast of our Saleski project.

While carrying out regulatory and consultation activities for the project, Laricina is performing preliminary engineering and design work on the SMP. Based on current regulatory review timelines, approval is expected by September 2013.

Upgrades to the five bridges on the Al-Pac Road were also completed during the quarter, ensuring continued safe and reliable access to Germain and Saleski.

Innovation

Further testing on the Enhanced Solvent Extraction Incorporating Electromagnetic Heating (ESEIEH) project is scheduled to commence in 2014 at the Suncor Dover site. The ESEIEH consortium is comprised of Laricina, Nexen Inc., Suncor Energy Inc., Harris Corporation and the Climate Change and Emissions Management Corp. The ESEIEH process distributes heat generated through the use of an antennae that propagates radio-frequency energy in the oil sands formations which, when used along with solvents, creates a unique alternative to existing steam-based *in situ* extraction methods.

We have been applying Magnetic Resonance Water Cut Meter technology at Saleski successfully for a year now. The technology provides real time data, with frequent sample intervals and can accurately detect water cuts without being affected by the unique conditions created by thermal operations. Further enhancements to detect solvent recovery volumes are being advanced.

Corporate

As Laricina nears completion of the Germain CDP and advances Phase 1 at Saleski, strengthening the management team becomes essential. As was previously announced, David Theriault, Senior Vice President In Situ and Exploration, announced his retirement during the quarter. Mark Montemurro, our Vice President Innovation and Technology, accepted the expanded role of Vice President In Situ and Innovation.

David Safari is a strategic addition to the management team, joining us as Vice President Facilities. He has more than 26 years of experience in the energy industry, primarily in oil and natural gas project execution. Prior to joining Laricina, he was Senior Project Director with Statoil Canada Ltd. David's mandate is to focus on facility design and construction, with special attention to early-stage capital risk and inefficiencies inherent in small-scale operations.

Subsequent to the quarter, Dean Setoguchi joined Laricina as Senior Vice President and Chief Financial Officer. He has more than 20 years of experience in oil and natural gas financial management, most recently serving as Vice President and Chief Financial Officer of Keyera Corp. Dean will provide additional executive capacity as we approach full-scale operations, conduct future private equity financings and potentially seek a public listing.

Outlook

Uncertainty in the political, economic and capital environments continued in the third quarter. These external uncertainties have been incorporated into our planning as we advance our major projects. Our expectation is we will remain a private company with private capital providing for our near-term capital needs. We will continue to evaluate and position potential debt and joint venture opportunities.

Capital expenditures were $55.7 million in the third quarter, the majority committed to the Germain CDP as it moves towards a 2013 start-up. Working capital at the end of the quarter was $442.3

million and projected working capital at year-end 2012 is approximately $250.0 million. While there are sufficient funds to complete construction and commence operations at Germain, Laricina requires additional capital to advance the Saleski Phase 1 commercial expansion, along with the next phase at Germain and other corporate initiatives.

Laricina continues to press forward to becoming a self-sustaining *in situ* oil sands producing company. Continued positive performance at Saleski and the advancement of Germain are evidence of this. After seven years of planning, development, construction and testing, we are excited about the next big steps towards commerciality.

We continue to be pleased by our progress and look forward to updating you in the months ahead on our development plans at Saleski and the remaining steps towards first steam at Germain. Thank you for your continued support.

(signed) Glen C. Schmidt

Glen C. Schmidt
President and Chief Executive Officer
November 8, 2012

Management's Discussion and Analysis

November 8, 2012

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, 2012 and September 30, 2011, and the audited consolidated financial statements and MD&A contained in the Company's Annual Report for the financial year ended December 31, 2011. The financial information presented in this MD&A has been prepared in accordance with International Accounting Standard 34 – Interim Reporting.

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 and total potential production volumes; statements relating to the continued advancement of the Company's projects and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "forecast" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could", "should" or "will" be taken or occur in the future. The reader is cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of November 8, 2012, there can be no assurance that such expectations will prove to be correct and, accordingly that actual results will be consistent with the forward-looking statements. The risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A and interim report include, but are not limited to: geological conditions relating to the Company's properties; the impact of regulatory changes especially as such relate to royalties, taxation and environmental changes; the impact of technology on operations and processes and the performance of new technology expected to be applied or utilized by the Company; labour shortages; supply and demand metrics for oil and natural gas; the impact of pipeline capacity, upgrading capacity and refinery demand; general economic business and market conditions and such other risks and uncertainties described from time to time in the reports and filings made with securities

regulatory authorities, contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements contained in this MD&A and interim report, and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. Unless required by law the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A and interim report are expressly qualified by this advisory and disclaimer.

Financial Overview

(thousands of dollars)	**Three Months Ended September 30**		**Nine Months Ended September 30**	
	2012	2011	**2012**	2011
Total assets	**$ 1,398,573**	$ 1,373,181	**$ 1,398,573**	$ 1,373,181
Working capital	**442,272**	706,696	**442,272**	706,696
Capital expenditures (cash)	**55,675**	54,444	**173,527**	139,066
Net operating revenue	**1,885**	784	**3,521**	1,031
Finance income	**1,832**	2,622	**5,929**	4,776
Net loss	**(7,341)**	(6,089)	**(22,260)**	(16,183)
Net loss per common share – basic and diluted	**(0.11)**	(0.10)	**(0.34)**	(0.29)

Laricina has continued to advance the Germain commercial demonstration project (CDP) and maintains progress on the demonstration of commercial thermal bitumen production from the Grosmont carbonates at Saleski.

During the first nine months of 2012, the Saleski pilot cumulative production volumes exceeded 100,000 gross barrels; solvent injection commenced late in the third quarter; a second steam generator has been commissioned; and an additional well-pair was drilled in the C zone, which incorporated improved drilling and stimulation techniques. Site construction and equipment fabrication continued to advance the Germain CDP and the Company expanded its land holdings through the acquisition of remaining working interests in certain jointly-owned oil sands properties for total consideration of $30.0 million.

The remainder of 2012 will focus on the continued operation of injection and production cycles at the Saleski pilot, which will include solvent injection; module fabrication and facility construction to advance the Germain CDP to commissioning which is expected late in the second quarter of 2013; and preparation for the 2012-2013 winter drilling program.

Capital Investment

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

	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of dollars)	**2012**	2011	**2012**	2011
Exploration and evaluation assets:				
Land	**$ 147**	$ 115	**$ 30,250**	$ 263
Exploration	**1,742**	99	**10,157**	15,825
Development	**42,284**	46,657	**120,710**	96,817
Other	**3,208**	8,429	**10,637**	19,542
Capitalized general and administrative	**4,411**	3,711	**12,981**	11,216
	51,792	59,011	**184,735**	143,663
Property, plant and equipment:				
Facilities and other equipment	**3,241**	116	**15,016**	15,263
Corporate	**258**	940	**1,498**	1,288
	3,499	1,056	**16,514**	16,551
Intangible assets	**3,214**	1,266	**10,958**	8,204
Capital asset additions	**$ 58,505**	$ 61,333	**$ 212,207**	$ 168,418
Capital expenditures (cash)	**$ 55,675**	$ 54,444	**$ 173,527**	$ 139,066

Land

On February 15, 2012 the Company closed a transaction to acquire the remaining working interests in certain jointly-owned oil sands properties for total market consideration of $30.0 million consisting of 705,882 common shares valued at $42.50 per common share.

Exploration

During the third quarter of 2012, Laricina acquired 22.0 km of 2-D seismic at Conn Creek. Other exploration activities during the first nine months of 2012 included the acquisition of, 25.0 km of 2-D seismic at Germain, 20.7 square-km of 3-D seismic at Saleski, and 1.3 square-km of 4-D seismic over the Saleski pilot site; and the drilling of five exploration wells during the 2011-12 winter drilling season, of which three were at Germain and the remainder at Saleski. In comparison, exploration activities during 2011 included the acquisition of 15.6 square-km 3-D seismic program and a 13 well exploration drilling program.

Development activities

Development activities during the nine month periods ended September 30, 2012 and September 30, 2011 were primarily to support the advancement of the Germain CDP. Development expenditures include exploration and evaluation assets as well as property, plant and equipment – facilities and other equipment assets.

(thousands of dollars)	Nine Months Ended September 30	
	2012	2011
Saleski	**$ 25,029**	$ 8,575
Germain	**94,485**	101,508
Other	**16,212**	1,997
	$ 135,726	$ 112,080

During the nine month period ended September 30, 2012 the development activities for the Germain CDP related to additional equipment purchases, the completion of engineering, approximately 80 percent completion of module fabrication and the delivery and construction of approximately 60 percent of modules to the facility site. At the Saleski pilot, an additional C zone well-pair was drilled in the first quarter to test the application of a balanced-pressure mud system and open hole completion; and a second steam generator was constructed and commissioned. Other development activities during 2012 included the upgrades to the Al-Pac road and bridges, which connects to Laricina's road system and the 2011-2012 winter development drilling program which included four observation wells, three of which were at Saleski for Phase 1 and the fourth well was at Germain for Phase 2; and the completion of six horizontal well-pairs for the Germain CDP.

In the first nine months of 2011, development activities included the drilling of six horizontal well-pairs for the Germain CDP and 2010-2011 winter drilling program of 17 observation wells, eight water source and monitoring wells, and two water disposal wells primarily to support the Germain CDP. Other development activities during 2011 included the acquisition of the Germain permanent camp and the detailed engineering for the Germain CDP.

Other

Other capital activities during the first nine months of 2012 related to the continuous advancement of infrastructure required for the commercial development of Saleski and Germain. Regulatory and consultation work for the Stony Mountain Pipeline (SMP) continued throughout 2012 including the commencement of initial engineering and the regulatory application which was filed during the third quarter. The SMP is a proposed bitumen transportation system which will connect the Company's commercial projects to the Cheecham terminal south of Fort McMurray and includes a 200,000 barrel-per-day 24-inch bitumen blend line and a 70,000 barrel-per-day 12-inch diluent return line.

In addition, other capital activities included continuing regulatory work for the Germain and Saleski development programs, progress on research and development projects, communication infrastructure and provisions for site restoration.

Other capital activities during the nine month period ended September 30, 2011 resulted primarily from the capitalization of pre-production operating activities associated with initial steaming at the Saleski pilot facility.

Intangible assets

Laricina recorded intangible assets of $6.3 million during the nine month period ended September 30, 2012 relating to the expansion of available power for the Company's future development projects at Germain. The ATCO Livock to Germain 144 kV transmission line was completed during the third quarter of 2012.

Additional intangible costs of $4.6 million have been recorded in 2012 for the recapitalization of the depreciation 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.

Corporate Results

	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of dollars)	**2012**	2011	**2012**	2011
Net operating revenue	**$ 1,885**	$ 784	**$ 3,521**	$ 1,031
Operating expenses	**4,954**	4,408	**15,997**	6,725
General and administrative expenses, net	**6,687**	4,189	**20,464**	11,346
Finance income	**1,832**	2,622	**5,929**	4,776
Net loss	**(7,341)**	(6,089)	**(22,260)**	(16,183)

During the third quarter, David Theriault, Senior Vice President In Situ and Exploration announced his retirement, resulting in an expanded role for Mark Montemurro as Vice President In Situ and Innovation. In addition, David Safari joined Laricina as Vice President Facilities and subsequent to September 30, 2012, Dean Setoguchi joined the Company as Senior Vice President and Chief Financial Officer.

Operating activities

During the first nine months of 2012, Laricina's Saleski pilot recorded approximately 102,800 gross (61,680 net) barrels of blended bitumen sales at an average price of $58.79 per barrel. The average price realized for blended bitumen sales during the third quarter was $61.27 per barrel compared to $57.64 per barrel and $55.13 per barrel realized during the first and second quarters of 2012, respectively. Cumulative production volumes from initial production in 2011 exceeded 100,000 gross barrels in the third quarter of 2012 with approximately 43,830 gross (26,300 net) barrels of bitumen produced during the third quarter. Production volumes have increased consistently throughout 2012 as a result of the second C zone well-pair which recorded first production in June 2012. Laricina recorded its first production volumes and initial blend sales during the second quarter of 2011 from the initial C zone well-pair.

A production test on the D well-pair was completed during the second quarter. Laricina continues to study the production results from the D zone, the connectivity between the C and D zones, and the potential to extract bitumen from C and D through combined well operations.

Increases in net operating revenue during 2012 is the result of increases in sales volumes partially offset by declines in the average realized price per barrel of blended bitumen sales. Sales volumes have fluctuated since initial production commenced in the second quarter of 2011 consistent with the Company's planned production test cycles. Peak production volumes of more than 1,200 barrels of bitumen per day were realized late in the second quarter of 2012 compared to the previous peak rate of more than 800 barrels of bitumen per day achieved during the first quarter of 2012. Production volumes have continued to increase throughout 2012 as a result of the additional C zone well-pair, an increase in the number of days in each production cycle and an increase in the average production per day. It is expected that both sales and production volumes will continue to fluctuate due to planned alternating cycles of steam injection and bitumen production.

Late in the third quarter, a solvent injection test was initiated in the first C zone well-pair. Production from this test cycle began during the fourth quarter. The results of this test will be reviewed and analyzed over the remainder of the year.

Operating, transportation and blending costs recognized are directly related to production and blended bitumen sales from the Saleski pilot. Operating costs have increased compared to 2011 as a result of increased camp costs, road maintenance, well servicing costs and solvent injection costs. Due to the experimental nature of a pilot, it is expected that operating costs will exceed net revenue throughout the life of this project.

General and administrative expenses

General and administrative expenses increased for the three and nine month periods ended September 30, 2012 when compared to the same periods in 2011 primarily due to the continued growth in the Company's employee and consulting base, and the additional overhead costs associated with increased personnel. At September 30, 2012, the Company has 138 employees of which 108 were located in the Calgary head office compared to 122 and 95, respectively at September 30, 2011. The growth in personnel is a result of the additional expertise and skills required to operate the Saleski pilot, advance the Germain CDP and other infrastructure projects to support future development. Costs directly related to project exploration and development activities are capitalized.

(thousands of dollars)		Three Months Ended September 30 2012		2011		Nine Months Ended September 30 2012		2011
General and administrative expenses, gross	**$**	**8,586**	$	5,405	**$**	**26,064**	$	16,236
Stock-based compensation costs		**2,511**		2,495		**7,381**		6,326
Capitalized costs		**(4,410)**		(3,711)		**(12,981)**		(11,216)
General and administrative expenses, net	**$**	**6,687**	$	4,189	**$**	**20,464**	$	11,346

Pre-exploration expenses

Pre-exploration activities during the first nine months of 2012 related to soil sampling projects for future roads and a variety of studies for purposes of improved drilling, construction and fabrication techniques. During the same period in 2011, pre-exploration activities consisted primarily of initial surveying work done to support future pipeline infrastructure.

Finance and other income

Finance income decreased during the three months ended September 30, 2012 when compared to the same period in 2011 due to a decrease in invested funds. Finance income increased in the nine month period ended September 30, 2012 when compared to the same period in 2011 due to an increase in the average funds on deposit combined with an increase in the average interest rates for invested funds. The average funds on deposit increased in the second half of 2011 from private placements completed in September and August of 2011. Excess cash is held in high-interest savings and guaranteed investment certificates with interest rates ranging from 1.2 percent to 1.8 percent during the nine month period ended September 30, 2012, compared to rates ranging from 1.2 percent to 1.6 percent during the first nine months of 2011.

Other income recorded during the third quarter of 2012 related to the sale of Saleski pilot data to a third-party for net proceeds of $1.2 million and fees charged to third-parties for the usage of Laricina's camp facilities and roads.

Finance expenses

Finance expenses include accretion for the site restoration provision and interest recorded on the finance lease associated with the German permanent camp. Finance expenses decreased to $0.8 million during the first nine months of 2012 from $1.0 million during the same period in 2011 due to the reduction of finance lease obligations.

Depreciation

Depreciation expense of $5.7 million recorded during the first nine months of 2012 increased from $3.9 million recorded in the comparable period of 2011. This increase in depreciation expense is related to the start-up of the Saleski pilot during the second quarter of 2011 when depreciation initiated.

Net loss

Laricina recorded net losses of $7.3 million and $22.3 million for the three and nine months ended September 30, 2012, respectively, compared to net losses of $6.1 million and $16.2 million for the three and nine months ended September 30, 2011, respectively. The increases in losses are the result of operating activities associated with the Saleski pilot and 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 the Saleski pilot the Company expects that operating costs will exceed net revenue throughout the pilot's life.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q3 2012**	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Working capital	**$ 442,272**	$ 504,230	$ 554,313	$ 628,121	$ 706,696	$ 631,215	$ 294,200	$ 361,751
Capital asset additions	**58,505**	53,279	100,423	77,431	61,333	25,382	81,703	35,753
Net operating revenue	**1,885**	945	691	1,328	784	247	-	-
Finance and other income	**4,086**	4,599	5,202	4,919	2,622	1,220	934	4,251
Net profit (loss)	**(7,341)**	(8,588)	(6,331)	(5,476)	(6,089)	(5,755)	(4,339)	716
Net profit (loss) per common share, diluted	**$ (0.11)**	$ (0.13)	$ (0.10)	$ (0.09)	$ (0.10)	$ (0.11)	$ (0.08)	$ 0.01

At the end of the second and third quarters of 2011, working capital was significantly higher due to the closing of private placements in September and August of that year contributing net proceeds of $365.8 million and $133.8 million, respectively.

Capital asset additions in the first quarter of 2012 include a $30.0 million acquisition of the remaining working interests in jointly-owned oil sands assets. Fluctuations in capital asset additions are the result of the Saleski pilot completion and related commissioning activities in the first quarter of 2011; the winter drilling programs, which normally occur in the first quarter of a year; and the progress of the Germain CDP detailed engineering, fabrication and construction during 2012.

Net operating revenue increased during the third quarter of 2012 as a result of an increase in sales volumes and an increase in the average realized price. Second quarter net operating revenue increased compared to the first quarter of 2012 as a result of an increase in sales volumes partially offset by a decline in the average realized price. The change in net operating revenue during the first quarter of 2012 compared to the third and fourth quarters of 2011 is the result of declines in the average realized price per barrel of blended bitumen sales combined with fluctuations in sales volumes. Sales volumes have fluctuated since initial production commenced in the second quarter of 2011 consistent with the Company's planned production cycles. Peak production volumes were realized during the second quarter of 2012 at a gross rate of 1,200 barrels per day. It is expected that sales volumes will continue to fluctuate due to planned alternating cycles of steam injection and bitumen production.

Other income during the third quarter of 2012 is due to the sale of Saleski pilot data to a third-party resulting in net proceeds of $1.2 million. Other income throughout 2012 includes third-party usage of the Company's camps and roads. Other income in the fourth quarters of 2011 and 2010 included the sale of Saleski pilot data to a third-party resulting in net proceeds of $2.7 million and $3.0 million, respectively. Finance income has decreased since the third quarter of 2011 due to decreased funds on deposit.

Liquidity and Financial Resources

Working Capital

Working capital decreased from December 31, 2011 by $185.8 million to $442.3 million at September 30, 2012 primarily due to capital expenditures including engineering, construction and fabrication costs for the Germain CDP and the 2011-2012 winter drilling program.

(thousands of dollars)		
Working capital, December 31, 2011	$	628,121
Capital expenditures (cash)		(173,527)
Operating activities		(17,905)
Proceeds from the issuance of common shares		10,693
Other		(5,110)
Working capital, September 30, 2012	**$**	**442,272**

Laricina has sufficient working capital to finance the anticipated capital and operating spending program remaining for 2012 of approximately $198.7 million which will focus primarily on the continued construction of the Germain CDP. Capital expenditures before capitalized general and administration costs are expected to be $185.0 million for the remainder of 2012. Of these expenditures, $119.4 million will be expended for the Germain CDP, $13.1 million on the advancement of Germain Phase 2 and $3.3 million for the advancement of Saleski Phase 1, the timing of which will depend on the results from the pilot. The balance of capital and operating spending will include advancement of future projects at Saleski and Germain, infrastructure, studies, other corporate capital, pilot operations and general and administrative expenses. Working capital at December 31, 2012 is expected to be sufficient to fund the completion and commissioning of the Germain CDP.

Future capital expenditures required to continue advancing to commercial operations are dependent on future financing. 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 at September 30, 2012 ranging from 1.3 to 1.8 percent. The Company may invest in Canadian government securities or fixed-term and bankers' acceptance investments with a minimum A rating.

Debt Financing

Laricina has a demand credit facility of $15.0 million with a major Canadian bank which has been extended to October 31, 2013 and is secured by an equivalent cash deposit. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At September 30, 2012 and the date of this report, the Company had letters of credit totaling $1.8 million 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:

(thousands of dollars)	Office	Field
2012 remainder	$ 474	$ 1,998
2013	2,984	10,159
2014	2,837	5,515
2015	2,337	1,579
2016 and thereafter	20	176

As at September 30, 2012, the Company had issued letters of credit totaling $1.8 million to suppliers of utilities to support development at Saleski and Germain. If project development is interrupted the Company will be required to reimburse $1.8 million of the suppliers' costs. The letters of credit of $1.6 million and $0.2 million are renewable on July 31, 2013 and August 31, 2013, respectively.

As at the date of this report, the Company has $69.0 million of purchase commitments outstanding which relate to the acquisition of equipment for the Germain CDP.

Outstanding Share Data

At October 31, 2012, share capital consisted of the following:

(thousands)	
Common shares	66,870
Stock options	1,969
Replacement options	2,596
Performance share units	777
Performance warrants	60
Total outstanding	**72,272**

Critical Accounting Estimates

A discussion of the Company's significant accounting policies is contained in Note 3 of the accompanying notes to the audited consolidated financial statements for the year ended December 31, 2011 in the Company's Annual Report. The nature of critical accounting estimates for Laricina remains unchanged since December 31, 2011.

Changes in Accounting Policies

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective for the period ended September 30, 2012 and were not applied in preparing the condensed consolidated financial statements for the second quarter. None are expected to have a significant effect on the Company's financial statements, except for IFRS 9 *Financial Instruments,* which will be adopted on January 1, 2015 and is expected to affect the classification and measurement of financial assets. The impact to the Company's consolidated financial statements has not been determined.

Risk Management

Risk factors remain substantially unchanged from December 31, 2011. 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 2011.

Outlook

Laricina's working capital of $442.3 million gives the Company flexibility in managing the rate of commercial development. 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.

Production and injection cycles at the Saleski pilot will continue throughout the remainder of 2012 including the study of production performance and the connectivity between the C and D zones with the potential to extract from the C and D through combined well operations. The Company will further evaluate well performance from the application of solvent injections in the C zone during the fourth quarter of 2012.

During the fourth quarter of 2012 and the first quarter of 2013, the majority of capital expenditures are expected to be related to the construction of the Germain CDP including the completion of module fabrication. In addition, capital expenditures will include the drilling of four additional well-pairs. It is expected that the Germain CDP will be commissioned early in 2013 and the initial well-pairs will commence steaming late in the second quarter of 2013, with first production expected to follow within three to four months.

Laricina will continue to advance the Saleski Phase 1 expansion of 10,700 barrels per day, with a focus on regulatory, front-end engineering and design, and site preparation. The regulatory application for the Saleski Phase 1 expansion was filed in December 2010. A project update was filed subsequent to September 30, 2012 to reflect the change of well configuration to single horizontal well cyclic steam assisted gravity drainage. As a result of this change, first steam is expected during the third quarter of 2015.

The fourth quarter of 2012 will include additional activities related to completing upgrades to the Al-Pac road, start-up of the ATCO Livock power sub-station and distribution system, and advancing plans, regulatory work and engineering for the SMP. The regulatory application for the SMP was filed during the third quarter of 2012. These developments contribute to the necessary infrastructure required to support the ongoing development of the Saleski and Germain projects.

During the remainder of 2012 and throughout 2013, additional employees and consultants will be required to complete the Germain CDP and further advance additional phases of development at Saleski and Germain. General and administrative expenses are expected to increase as a result of additional salaries and overhead costs associated with increased personnel.

The remaining 2012 capital and operating expenditures (including cash general and administrative expenses) are expected to be approximately $198.7 million with the majority of the costs related to the construction of the Germain CDP.

Condensed Consolidated Statements of Financial Position

(Unaudited)

As at *(thousands of Canadian dollars)*	Note	**September 30** **2012**	December 31 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 491,358**	$ 656,891
Trade and other receivables		**7,192**	17,892
Prepaid expenses and deposits		**872**	808
Inventories		**1,990**	1,740
		501,412	677,331
Non-current assets			
Abandonment deposits		**913**	906
Other long-term		**1,194**	1,194
Exploration and evaluation	4	**815,179**	638,405
Property, plant and equipment	5	**59,426**	45,313
Intangible		**20,449**	9,491
		897,161	695,309
Total assets		**$ 1,398,573**	$ 1,372,640
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**$ 54,140**	$ 44,210
Finance lease obligation		**5,000**	5,000
		59,140	49,210
Non-current liabilities			
Site restoration provision		**17,436**	16,178
Finance lease obligation		**3,931**	7,851
Deferred income tax		**4,438**	10,403
		25,805	34,432
Total liabilities		**84,945**	83,642
Shareholders' equity			
Share capital	6	**1,331,655**	1,286,352
Contributed surplus		**30,065**	28,478
Deficit		**(48,092)**	(25,832)
Total shareholders' equity		**1,313,628**	1,288,998
Total liabilities and shareholders' equity		**$ 1,398,573**	$ 1,372,640

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

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(thousands of Canadian dollars)	Note	Three Months Ended September 30 **2012**	2011	Nine Months Ended September 30 **2012**	2011
Revenue					
Blend sales		**$ 1,941**	$ 809	**$ 3,626**	$ 1,064
Royalties		**(56)**	(25)	**(105)**	(33)
Net operating revenue		**1,885**	784	**3,521**	1,031
Other income	7	**2,254**	-	**7,958**	-
		4,139	784	**11,479**	1,031
Expenses					
Transportation and blending		**936**	493	**1,972**	846
Operating		**4,954**	4,408	**15,997**	6,725
Pre-exploration		**506**	(21)	**666**	216
General and administrative		**6,687**	4,189	**20,464**	11,346
Depreciation		**1,955**	1,692	**5,724**	3,930
		15,038	10,761	**44,823**	23,063
Results from operating activities		**(10,899)**	(9,977)	**(33,344)**	(22,032)
Finance income		**1,832**	2,622	**5,929**	4,776
Finance expenses		**(245)**	(338)	**(810)**	(1,043)
Net finance income		**1,587**	2,284	**5,119**	3,733
Net loss before income tax		**(9,312)**	(7,693)	**(28,225)**	(18,299)
Deferred income tax recovery		**(1,971)**	(1,604)	**(5,965)**	(2,116)
Total comprehensive loss		**$ (7,341)**	$ (6,089)	**$ (22,260)**	$ (16,183)

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

Condensed Consolidated Statements of Changes in Equity

(Unaudited)

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at December 31, 2010	$ 780,198	$ 21,771	$ (4,173)	$ 797,796
Comprehensive loss	-	-	(16,183)	(16,183)
Issue of common shares	519,683	-	-	519,683
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	1,286,295	26,468	(20,356)	1,292,407
Comprehensive loss	-	-	(5,476)	(5,476)
Share issue costs, net of tax of $4	17	-	-	17
Share-based payments	-	2,050	-	2,050
Performance share units exercised	40	(40)	-	-
Balance at December 31, 2011	1,286,352	28,478	(25,832)	1,288,998
Comprehensive loss	-	-	(22,260)	(22,260)
Issue of common shares in exchange for assets	30,000	-	-	30,000
Share-based payments	-	6,197	-	6,197
Performance warrants exercised	9,698	(531)	-	9,167
Performance share units exercised	2,117	(2,116)	-	1
Replacement options exercised	1,478	(1,430)	-	48
Stock options exercised	2,010	(533)	-	1,477
Balance at September 30, 2012	**$ 1,331,655**	**$ 30,065**	**$ (48,092)**	**$ 1,313,628**

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

Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the Nine Months Ended September 30 *(thousands of Canadian dollars)*	**2012**	2011
Cash flows from operating activities		
Comprehensive loss for the period	**$ (22,260)**	$ (16,183)
Adjustments for:		
Depreciation	**5,724**	3,930
Equity settled share-based payments	**4,301**	2,965
Unwinding of site restoration discount	**295**	253
Deferred income tax recovery	**(5,965)**	(2,116)
Deferred income	**-**	(32)
	(17,905)	(11,183)
Change in trade and other receivables	**2,432**	3,392
Change in prepaid expenses and deposits	**(79)**	(143)
Change in inventories	**(525)**	(1,418)
Change in trade and other payables	**(3,765)**	526
Net cash used in operating activities	**(19,842)**	(8,826)
Cash flows from investing activities		
Property, plant and equipment, and exploration and evaluation expenditures	**(146,138)**	(115,022)
Intangible expenditures	**(6,319)**	(5,667)
Abandonment deposits	**(7)**	(396)
Net cash used in investing activities	**(152,464)**	(121,085)
Cash flows from financing activities		
Proceeds from the issue of common shares	**10,693**	519,683
Finance lease obligation	**(3,920)**	(1,020)
Share issue costs	**-**	(19,966)
Net cash from financing activities	**6,773**	498,697
Net (decrease) increase in cash and cash equivalents	**(165,533)**	368,786
Cash and cash equivalents, beginning of period	**656,891**	375,426
Cash and cash equivalents, end of period	**$ 491,358**	$ 744,212

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

Notes to the Condensed Consolidated Interim Financial Statements – September 30, 2012

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

1. Reporting Entity

Laricina Energy Ltd. (Laricina or the Company) was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). These condensed consolidated interim financial statements of the Company as at and for the nine months ended September 30, 2012 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 fund projects beyond the Saleski pilot plant and the Germain commercial demonstration project.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements which were prepared in accordance with International Financial Reporting Standards (IFRS) and are included in the Company's Annual Report for 2011.

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 IFRS.

These condensed consolidated interim financial statements were approved for release to shareholders by the Board of Directors on November 8, 2012.

Basis of measurement
These 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 described in the Company's Annual Report for 2011.

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in these condensed consolidated interim financial statements are consistent with those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2011.

4. Exploration and Evaluation Assets

Cost		
Balance at December 31, 2011	$	645,257
Additions during the period		184,735
Balance, September 30, 2012	**$**	**829,992**

Depreciation		
Balance, December 31, 2011	$	(6,852)
Depreciation for the period		(7,961)
Balance, September 30, 2012	**$**	**(14,813)**

Carrying amounts		
As at December 31, 2011	$	638,405
As at September 30, 2012	**$**	**815,179**

5. Property, Plant and Equipment

Cost		**Facilities and other equipment**		**Corporate assets**		**Total**
Balance, December 31, 2011	$	45,465	$	4,117	$	49,582
Additions during the period		15,015		1,499		16,514
Balance, September 30, 2012	**$**	**60,480**	**$**	**5,616**	**$**	**66,096**
Depreciation						
Balance, December 31, 2011	$	(2,413)	$	(1,856)	$	(4,269)
Depreciation for the period		(1,373)		(1,028)		(2,401)
Balance, September 30, 2012	**$**	**(3,786)**	**$**	**(2,884)**	**$**	**(6,670)**
Carrying amounts						
As at December 31, 2011	$	43,052	$	2,261	$	45,313
As at September 30, 2012	**$**	**56,694**	**$**	**2,732**	**$**	**59,426**

6. 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, 2011	64,211	$	1,286,352
Issued in exchange for assets	706		30,000
Performance warrants exercised	793		9,698
Performance share units exercised	80		2,117
Replacement options exercised	963		1,478
Stock options exercised	74		2,010
Balance, September 30, 2012	**66,827**	**$**	**1,331,655**

On February 15, 2012, the Company acquired the remaining working interests in jointly-owned oil sands properties effective January 1, 2012 for total consideration of $30.0 million consisting of 705,882 common shares valued at $42.50 per common share.

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, December 31, 2011	4,071	$	11.20
Exercised	(793)		11.56
Exchanged for replacement options	(3,218)		11.06
Outstanding, September 30, 2012	**60**	**$**	**13.95**
Exercisable, September 30, 2012	**60**	**$**	**13.95**

The fair value calculation for performance warrants was not required for the three and nine month periods ended September 30, 2012 and September 30, 2011 as no performance warrants were issued or required a change in measurement.

6. Share Capital (continued)

Replacement Options

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

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2011	-	$	-
Exchange of certain performance warrants and options	3,559		0.05
Exercised	(963)		0.05
Outstanding, September 30, 2012	**2,596**	**$**	**0.05**
Exercisable, September 30, 2012	**1,075**	**$**	**0.05**

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, 2011	3,485	$	16.12
Granted	595		30.68
Forfeited	(351)		29.85
Exercised	(74)		20.00
Exchanged for replacement options	(1,690)		5.00
Outstanding, September 30, 2012	**1,965**	**$**	**27.49**
Exercisable, September 30, 2012	**955**	**$**	**24.37**

For the three and nine month periods ended September 30, 2012, compensation cost of $0.8 million ($1.0 million in 2011) and $3.0 million ($2.7 million in 2011), respectively, has been recognized for options that have been granted. During the three and nine month periods ended September 30, 2012, $0.3 million ($0.5 million in 2011) and $1.2 million ($1.5 million in 2011), respectively, was capitalized.

Performance Share Unit Plan

The Company has a Performance Share Unit Plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of performance share units (PSUs).

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2011	675	$	0.01
Granted	214		0.01
Exercised	(80)		0.01
Forfeited	(90)		0.01
Outstanding, September 30, 2012	**719**	**$**	**0.01**
Exercisable, September 30, 2012	**243**	**$**	**0.01**

For the three and nine month periods ended September 30, 2012, compensation cost of $0.7 million ($1.1 million in 2011) and $3.2 million ($3.5 million in 2011), respectively, has been recognized for PSUs that have been granted. For the three and nine month periods ended September 30, 2012, $0.3 million ($0.6 million in 2011) and $1.3 million ($1.9 million in 2011) was capitalized, respectively.

Share Appreciation Rights Plan

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 (SARs) providing for cash payments equal to the excess of the market price of the common shares over the exercise price of the right. The vesting period of the share appreciation rights is two years.

	Number (thousands)		Weighted Average Exercise Price
Outstanding, December 31, 2011	77	$	33.13
Granted	101		30.96
Exercised	(14)		25.15
Forfeited	(32)		33.29
Outstanding, September 30, 2012	**132**	**$**	**32.28**
Exercisable, September 30, 2012	**28**	**$**	**34.18**

6. Share Capital (continued)

All SARs were granted to employees directly involved in field activities. For the three and nine month periods ended September 30, 2012, compensation cost of $0.1 million and $0.3 million, respectively, were recorded ($0.2 million and $0.2 million, respectively, in 2011) and has been recognized for SARs that have been granted. At September 30, 2012, the Company recorded an accrued liability of $0.6 million ($0.3 million at December 31, 2011) for outstanding SARs. At September 30, 2012, the Company had a nil obligation (nominal at December 31, 2011) for SARs that had vested.

7. Other Income

Other income is composed of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	**2012**	2011
Data sale to third-party	**$ 1,200**	$ -	**$ 1,200**	$ -
Third-party camp and road usage	**1,054**	-	**6,758**	-
	$ 2,254	$ -	**$ 7,958**	$ -

8. Loss per Share

Basic loss per share

The calculation of basic loss per share for the three and nine month periods ended September 30, 2012 was based on the loss attributable to common shareholders of $7.3 million and $22.3 million ($6.1 million and $16.2 million in 2011), respectively, and a weighted average number of common shares outstanding during the three and nine month periods ended September 30, 2012. The weighted average number of common shares outstanding was calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of shares)	**2012**	2011	**2012**	2011
Issued common shares at beginning of period	**65,687**	60,906	**64,211**	51,916
Effect of common shares issued	**-**	1,611	**587**	3,585
Effect of performance warrants exercised	**88**	-	**296**	-
Effect of PSUs exercised	**11**	-	**34**	41
Effect of replacement options exercised	**506**	-	**170**	-
Effect of stock options exercised	**11**	-	**27**	-
Weighted average common shares outstanding (basic)	**66,303**	62,517	**65,325**	55,542

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 $0.11 and $0.34 for the three and nine month periods ended September 30, 2012, respectively, compared to a basic and diluted loss per share of $0.10 and $0.29 for the three and nine month periods ended September 30, 2011, respectively.

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Corporate Information

Senior Management

Glen C. Schmidt
President and CEO

C. Dean Setoguchi
Senior Vice President and CFO

Derek A. Keller
Vice President Production

Karen E. Lillejord
Vice President Finance and Controller

Mark A. Montemurro
Vice President In Situ and Innovation

David Safari
Vice President Facilities

Marla A. Van Gelder
Vice President Corporate Development

Neil R. Edmunds
Advisory Director

Directors

Jeffrey M. Donahue, Jr. [2, 3]
Vice President – Principal Investing,
CPPIB Equity Investments Inc.

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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