LARICINA
ENERGY LTD.

2016 Annual Report

Contents

Forward-Looking Statements

This annual report contains certain “forward-looking statements” under applicable securities laws and includes such statements about Laricina Energy Ltd.’s plans that are based on assumptions and that involve risk and uncertainties. Actual results may differ materially. Refer to page 27 for additional information on forward-looking statements.

Management's Discussion and Analysis

This Management's Discussion and Analysis (**MD&A**) of the financial results of Laricina Energy Ltd. (**Laricina** or the **Company**) dated April 21, 2017 is as at and for the year ended December 31, 2016 and should be read in conjunction with the accompanying audited consolidated annual financial statements and notes thereto as at and for the year ended December 31, 2016 (the **annual financial statements**). The financial information contained in this MD&A is presented in thousands of Canadian dollars except as otherwise noted and was derived from the annual financial statements prepared in accordance with the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

The information in this MD&A provides management's analysis of the financial condition and operating results of Laricina and contains forward-looking statements based on estimates and assumptions that are subject to risks and uncertainties. Actual results or events may vary materially from those anticipated. Readers are directed to the Advisory on Forward-Looking Statements section of this MD&A.

Business Overview

Laricina is a private, Calgary-based responsible energy company founded in 2005 with the goal to create value by developing Canada's *in situ* hydrocarbon resources using innovative technologies. The Company has a diverse portfolio of oil sands assets at varied stages of development. Two core development areas have been identified, Germain and Saleski. The Company has an undivided interest in Germain and all other oil sands assets with the exception of Saleski for which the Company's working interest is 60.0 percent. Bitumen production volumes and bitumen blend sales volumes are net to Laricina's working interest unless specifically identified as gross volumes.

In the first quarter of 2015, the Company deferred further development of Saleski Phase 1 and suspended operations at the Germain commercial demonstration project (**CDP**) in an effort to conserve capital and protect the long-term value of the assets. In the third quarter of 2015, Laricina also suspended operations at the Saleski pilot. These events are further described in the Significant Events for the Year Ended December 31, 2015 section of the MD&A contained in the Company's annual report for 2015.

The Company's current focus is on preserving the integrity and value of its assets and on exploring alternatives to potentially resume development of its oil sands properties when favorable market conditions return.

Significant Events for the Year Ended December 31, 2016

Following the Company's recapitalization on November 30, 2015 pursuant to the settlement agreement dated July 20, 2015 (the **Settlement Agreement**) between the Company and its sole lender (the **Noteholder**) and the completion of the settlement transaction (the **Settlement Transaction**) as described therein, Laricina continued to be protected from creditors for the balance of 2015 and exited from the protection under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) effective February 1, 2016. The CCAA proceedings, Settlement Agreement and Settlement Transaction are further described in note 1 to the audited consolidated financial statements as at and for the year ended December 31, 2015.

The Company has paid in full all accounts in respect of its CCAA proceedings. The final court order contained a condition requiring Laricina to set aside a reserve of $1.8 million against which the payment of the remaining $0.8 million unpaid proven claims would be drawn and an outstanding disputed claim of $1.0 million could be drawn.

As of the date of this MD&A, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve and, accordingly, the reserve funds remaining have been released and reclassified to cash.

Pursuant to the terms of the Settlement Agreement, the board of directors of Laricina was reconstituted on February 5, 2016. By virtue of the Noteholder and its affiliates' ownership interest in the equity of Laricina, the Noteholder was entitled to nominate three of the five directors. The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the board of directors on February 5, 2016 was deemed a change of control under the provisions of the stock option plan and the performance share unit plan. As a result of both these events, accelerated vesting of all unvested stock options and performance share units (**PSU**s) occurred on February 5, 2016 and, as such, all stock options and PSUs are exercisable.

On June 22, 2016, certain events contemplated under the Settlement Agreement concluded thereby obligating the Company to pay $6.1 million to the Noteholder. On August 31, 2016, net proceeds of $1.4 million of certain receivables described in the Settlement Agreement were received by the Company and designated as payable to the Noteholder. Payment of each amount is due at the Noteholder's discretion and when paid will be first applied to any principal outstanding under the payment-in-kind notes (**PIK Notes**) and then any remaining balance directed to a partial repayment of principal outstanding under the senior secured notes.

Significant Events Occurring Subsequent to December 31, 2016

Effective March 20, 2017, the indenture dated March 20, 2014, as supplemented by the first supplemental indenture dated as of November 30, 2015 (collectively, the **Indenture**), governing the $150.0 million of 11.5 percent senior secured notes (variously described over the course of their history as the **Initial Notes, Amended Notes** or **Continuing Notes**) issued thereunder, and the PIK Notes (collectively the **Notes**) also issued under that Indenture in lieu of cash payments of interest and reimbursable costs of the lender was further amended. The maturity date of the Notes was extended by three years to March 20, 2021 and the annual rate of interest was decreased from 13.5 percent to 12.5 percent.

The completion of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements. The executive officers so affected had the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. Those rights were exercised on March 30, 2017 and, as a consequence, Glen Schmidt, President and CEO, Derek Keller, Vice President Production and Marla Van Gelder, Vice President Corporate Development are stepping down from their respective positions and will be leaving the Company effective April 30, 2017. Diane Koenig, Vice President Finance and Controller has been named Executive Vice President to lead the Company.

Summary Annual Financial Information

For the years ended December 31	**2016**	2015	2014
Total assets	**669,580**	487,338	1,177,925
Working capital	**22,659**	43,798	3,899
Cash capital expenditures (recovery)(1)	**(967)**	(4,102)	45,793
Bitumen blend sales revenue	**-**	4,530	24,072
Finance and other income	**8,266**	12,734	16,894
Net income (loss) and comprehensive income (loss)	**168,048**	(715,641)	(359,866)
Earnings (loss) per share – Basic and diluted	**0.29**	(6.34)	(5.21)

(1) Cash capital expenditures (recovery) include cash expenditures on exploration and evaluation assets, property, plant and equipment, capitalized general and administrative expenses, and any reversals or offsets thereto.

Total assets

Total assets at December 31, 2016 were higher than total assets at December 31, 2015 by $182.2 million primarily as a result of the $203.9 million reversal of impairment losses associated with the exploration and evaluation (**E&E**) assets. This was partially offset by cash expended to fund the Company's operations, lower trade and other receivables outstanding at the end of 2016, changes in the site restoration provision and depreciation recognized during 2016.

Total assets decreased by $690.6 million over the course of 2015 largely due to the $528.6 million impairment loss associated with E&E assets and intangible assets, and the $68.8 million cash repayment of Notes. To a lesser extent, working capital funding, debt service costs and depreciation and amortization expense comprised the remainder of the decrease.

Working capital

Working capital as at December 31, 2016 was lower than working capital as at December 31, 2015 due to the reclassification of a portion of the Continuing Notes and PIK Notes to current liabilities as payment is due at the Noteholder's discretion and, to a lesser extent, lower cash and trade and other receivables balances as at December 31, 2016 compared to the corresponding balances as at December 31, 2015

Working capital as at December 31, 2015 was higher than working capital as at December 31, 2014 by $39.9 million because of the reclassification of the Continuing Notes and PIK Notes to non-current liabilities and reduced trade and other payables, partially offset by lower cash, restricted cash and short-term investment balances.

Cash capital expenditures (recovery)

Cash capital expenditures were minimal during 2016 as operations remain suspended at the Germain CDP and Saleski pilot. During the first quarter of 2016, the Canada Revenue Agency (the **CRA**) approved the 2012 and 2013 Scientific Research and Experimental Development (**SR&ED**) tax credit claims. As a result, $0.4 million of the $0.8 million refundable portion of the Alberta tax credit was recognized as a cash capital recovery and reduced E&E assets accordingly. The Company received the cash refund inclusive of associated interest from the Government of Alberta on October 28, 2016. During the third quarter of 2016, a cash capital recovery of $0.2 million related to the Enhanced Solvent Extraction Incorporating Electromagnetic Heating (**ESEIEH**) project was received. The remaining balance of the cash recovery related to a refund following an amendment to a vendor contract pertaining to the Saleski Phase 1 project.

During 2015, the Company received approval from the Government of Alberta of its $7.8 million claim for compensation in relation to the cancellation of leases under the Urban Development Sub-region (**UDSR**). The compensation approximated the carrying value of the leases that were cancelled and payment was received at the end of 2015. Partially offsetting the cash capital recovery in the period ended December 31, 2015 were capital expenditures primarily related to the completion of approximately 80.0 percent of the detailed engineering and design for Saleski Phase 1 and the acquisition of 1.1 square-kilometres of four-dimensional seismic at the Saleski pilot.

In 2014, cash capital expenditures predominantly consisted of the advancement of the detailed engineering and design for Saleski Phase 1.

Additional details relating to cash capital expenditures and recoveries for 2015 and 2016 are described in the Capital Investment section of this MD&A.

Bitumen blend sales revenue

Bitumen blend sales revenue was at its highest in 2014 as a result of initial production at the Germain CDP and continued production from the Saleski pilot. In 2015, both projects were suspended in an effort to conserve capital and preserve the value of the underlying assets and, as a result, there was no bitumen blend sales revenue in 2016. The Results of Operations section of this MD&A provides further commentary around these changes.

Finance and other income

Finance income and other income fluctuate year over year as a result of the average funds held on deposit and variable third-party use of the camps and the Chip Lake access road, respectively. Finance income in the year ended December 31, 2015 included $2.8 million of accrued interest relating to the reimbursement of expenditures associated with the UDSR claim for which payment was received in December 2015. Details of these changes for 2015 and 2016 are discussed in the Corporate Results section of this MD&A.

Net income (loss) and comprehensive income (loss)

For the year ended December 31, 2016, the net income and comprehensive income of $168.0 million is primarily the result of a $203.9 million reversal of impairment losses recognized in the year. This is compared to a net loss and comprehensive loss in 2015 and 2014 which occurred principally due to an impairment loss of $528.6 million and a loss on substantial modification of the notes of $118.4 million under the Settlement Agreement recognized in 2015, and an impairment loss of $195.2 million in 2014. Further discussion of the net income (loss) and comprehensive income (loss) for each of 2015 and 2016 is described in the Corporate Results section of this MD&A.

Oil Sands Reserves[1] and Resources[2]

The Company's independent reserve evaluators, GLJ Petroleum Consultants Ltd. (**GLJ**), completed an independent reserves and resource assessment evaluation on all of the Company's properties effective December 31, 2016 (collectively, the **GLJ Report**) which represents 100.0 percent of Laricina's net land base.

Laricina has focused on four bitumen-bearing geological formations for development: the Grand Rapids and McMurray sands, and the Grosmont and Winterburn carbonates. The Company's bitumen reserves and resources are located in the Germain, Saleski, and Burnt Lakes areas in the west Athabasca oil sands region; and Conn Creek, Poplar Creek, Portage, Boiler Rapids, House River, Thornbury and Thornbury West in the east Athabasca oil sands region. The Company has a 60.0 percent working interest in Saleski and a 100.0 percent working interest in all other properties. Laricina is the operator of all its properties. Recovery methods including steam-assisted gravity drainage (**SAGD**), cyclic-SAGD (**C-SAGD**), solvent-cyclic SAGD (**SC-SAGD**) and cyclical steam stimulation (**CSS**) were used when evaluating the resource potential of each reservoir.

Reserves

Laricina's bitumen reserves are associated with, and represent a portion of the bitumen recoverable resource volumes at the Company's Germain Grand Rapids asset, where Laricina has applied for regulatory approval for a commercial bitumen recovery scheme. The Company has probable reserves of 389 million barrels and probable plus possible reserves of 468 million barrels as at December 31, 2016, resulting in no change from the previous year-end. All of the reserves assigned are classified as undeveloped as of the effective date.

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(1) The Canadian Oil and Gas Evaluation Handbook (the **COGE Handbook**) defines probable reserves as those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved reserves plus probable reserves. The COGE Handbook defines possible reserves as those additional reserves that are less certain to be recovered than probable reserves. Reserves at Germain are based on SAGD technology.

(2) COGE Handbook defines contingent resources as quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated recoverable quantities associated with a project in early evaluation status. There is no certainty that it will be commercially viable to produce any portion of the contingent resources.

Contingent Resources

The following table summarizes the Company's working interest unrisked and risked best estimate contingent resources volumes by property.

Property[1]	**Unrisked Best Estimate Contingent Resources** (millions of barrels)	**Aggregated Risk (Chance of Development)** (percent)	**Risked Best Estimate Contingent Resources** (millions of barrels)
Sub-class – Development Unclarified			
Saleski - Grosmont C[2]	298	62	185
Saleski - Grosmont D, Part 1[2]	196	43	85
Germain Grand Rapids	933	64	598
Conn Creek	195	48	95
Poplar Creek	91	34	31
Portage	58	40	23
	1,772	57	1,017
Sub-class – Development Not Viable			
Saleski – Grosmont D, Part 2[2]	466	38	177
Other Properties	250	29	73
	716	35	250
Total[3]	**2,488**	**51**	**1,267**

Note: Columns may not add due to rounding.

(1) Contingent resource estimates for Germain Grand Rapids, Conn Creek, and Poplar Creek are based on SC-SAGD technology; Other Properties are based on SAGD technology; and Saleski is based on CSS technology.

(2) Laricina's resources at Saleski are contained in the Grosmont Formation, a carbonate reservoir. SAGD and CSS are established technologies that have been demonstrated to be commercially viable in certain sandstone reservoirs; C-SAGD is a modification of these techniques. C-SAGD has been applied at the Saleski pilot demonstrating commercial viability specifically for the subject reservoirs. Part 1 is resource which is staked above developable Grosmont C resource while Part 2 is Grosmont D resource without any developable Grosmont C below. There are no known operating commercial projects that use SAGD, C-SAGD or CSS technologies to recover bitumen from a carbonate formation.

(3) These volumes are arithmetic sums of the Company's working interest share before royalties, which statistical principles indicate may be misleading as to volumes that may actually be recovered. Readers should give attention to the estimates of individual classes of resources and appreciate the differing probabilities of recovery associated with each class as explained.

The project maturity sub-classes and risk factors (chance of development) for the contingent resources have been assessed based upon the technology status, economic status and project evaluation scenario status. Project maturity describes the stage of an exploration or development project and broadly corresponds to the chance of commerciality of the project. The project maturity sub-classes (in order of increasing chance of commerciality) are: development not viable, development unclarified, development on hold and development pending. The boundaries between the maturity sub-classes represent "decision gates" that reflect the actions (business decisions) required by the resource owner to move the project up the maturity "ladder" toward commercial production. The project maturity sub-class is accompanied by an estimate of the probability of progressing to the next level of maturity, which is independent of the uncertainty associated with the range of recoverable volumes.

Development Unclarified is where the evaluation is incomplete and there is ongoing activity to resolve. Snapshot characteristics for this class specific to Laricina's assets are:

- Pre-development project evaluation scenario;
- Established technology or technology under development;
- Economic status or economic status undetermined; and/or
- Evaluation ongoing, contingencies may not be fully defined.

The following non-technical contingencies specific to Laricina's contingent resources development unclarified prevent the classification of reserves at this time. Steps needed to remove these contingencies are also included below:

- Delineation drilling – although the "known accumulation" criteria have been satisfied for the properties, additional drilling within the discovered lands is required to improve reservoir characterization prior to project execution;
- Regulatory approvals – the submission of the regulatory application for development typically confirms a level of company commitment and advanced development planning including project feasibility and technical studies suitable for an investment decision;
- High quality project cost estimates – high quality capital cost estimates are required to confirm positive project economics. The Company must provide internal cost studies specific to a proposed development in each property including the results of their engineering design specification cost study;
- Economic studies – economic forecasts have not been prepared for the development unclarified contingent resources. Considering both the per well economic threshold for development and the project sizes in comparison to commercially successful *in situ* projects in operations, Laricina's development unclarified contingent resources are inferred to be economic but further detailed economic studies and forecasts are required to confirm positive project economics; and/or
- Firm development plans and company commitment – planning of well layouts and pad locations as well as confirmation of corporate intent to proceed within a reasonable timeframe.

Development Not Viable is where no further data acquisition or evaluation is currently planned and hence there is a low chance of development. Snapshot characteristics for this class specific to Laricina are:

- Pre-development or conceptual project evaluation scenario;
- Established technology or technology under development;
- Sub-economic or economic status undetermined; and/or
- No further data collection or plans to proceed for foreseeable future.

Development not viable contingent resources are not expected to be economic using current technology or technology under development, and using a reasonable development plan, costs and pricing assumptions. Significant cost reductions, commodity price increases or technology improvements are likely required to render these projects as viable. Though economics were not calculated, the economics can be inferred by analogy to similar projects in combination with marginal well economic testing. The same non-technical contingencies outlined above for Laricina's development unclarified contingent resources, in combination with confirmation of economic status, prevent the classification of development not viable contingent resources to reserves at this time.

The GLJ Report identified unrisked best estimate development unclarified contingent resources of 1.8 million barrels at December 31, 2016 which is lower than the 2.2 million barrels reported at December 31, 2015 for the equivalent properties. The key change in the unrisked contingent resources results from an updated Saleski Grosmont D assessment. The Saleski Grosmont D production profiles have been revised based on re-consideration of the historical pilot and geological data and a revised development strategy wherein Part 1, or the Grosmont D directly overlying Grosmont C development, is developed by sidetracking and Part 2, or the Grosmont D not overlying the Grosmont C development, is developed with independent drilling. Based on analogy to similar projects in combination with marginal well economic testing, the Grosmont D Part 1 unrisked contingent resources are considered to be economic to develop and have been sub-classified by project maturity as development unclarified; the Grosmont D Part 2 unrisked contingent resources are considered to be sub-economic to develop and have been sub-classified by project maturity as development not viable.

Unrisked best estimate prospective resources were 9.3 million barrels reported as at December 31, 2016 which shows no change from the barrels previously reported at December 31, 2015.

The scope of the GLJ Report did not include estimates for the low and high estimate contingent or prospective resources.

No economic evaluation was requested to be prepared on the reserves and resources due to the uncertainty in assumptions, including but not limited to, timing of development, price forecasts, and available financing. However, economic sensitivities were completed by GLJ and the Company, using GLJ's January 1, 2017 price forecasts to ensure the reserves assessment was appropriate and in accordance with the COGE Handbook.

Laricina has explored and delineated the geological formations throughout its portfolio of properties. At December 31, 2016, Laricina has a total of 394 delineation wells on its operated lands, of which approximately 70.0 percent are at Saleski and Germain. Delineation wells and the Company's overall confidence in its development plans, and the regulatory applications, as well as fulfilling lease retention requirements support the recoverable resource estimates provided by GLJ.

Results of Operations

For the years ended December 31	**2016**	2015
Bitumen blend sales revenue	**-**	4,530
Royalties expense (recovery)	**(2)**	48
Transportation and blending expenses	**-**	3,375
Operating expenses	**9,460**	25,465

Bitumen blend sales revenue

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

For the years ended December 31 *(barrels)*	**2016**	2015
Saleski pilot bitumen production volumes	**-**	64,163
Germain CDP bitumen production volumes	**-**	36,473
Bitumen production volumes	**-**	100,636
Bitumen blend sales volumes	**-**	135,032

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

For the years ended December 31	**2016**	2015
Average realized sales price per barrel (Cdn $/barrel)	**$ -**	$ 33.55
West Texas Intermediate (**WTI**) (United States $/barrel)	**$ 43.32**	$ 48.80
WTI (Cdn $/barrel)	**$ 57.26**	$ 62.59
Western Canadian Select (Cdn $/barrel)	**$ 38.90**	$ 45.14

Royalties

Crown royalties are paid on bitumen sales volumes from the Saleski pilot and the Germain CDP based on applied royalty rates determined by the Government of Alberta. In the first quarter of 2016, the Company received a small credit from the Government of Alberta to reconcile actual 2015 royalty costs owing to amounts paid.

Transportation and blending expenses

Transportation and blending expenses include the cost of diluent purchased for blending with the produced bitumen and the cost of transporting the bitumen blend sales volumes to sales terminals. No transportation and blending expenses were incurred in 2016 because there was no production.

Operating expenses

The Company suspended operations at the Germain CDP in the first quarter of 2015 and at the Saleski pilot in the third quarter of 2015. Consequently, operating costs for the year ended December 31, 2016 mainly consisted of costs associated with the use of Laricina's camps by third parties, maintenance of the Chip Lake access road and costs related to securing and maintaining the integrity of the assets at the Germain CDP and Saleski pilot while operations remain suspended. In the third quarter of 2016, the Company also incurred a $0.9 million cost with a third-party power provider to defer by two years an increase to the power load at the Germain CDP for which there was no corresponding charge in 2015.

Operating costs during the year ended December 31, 2015 included the foregoing but was higher than the corresponding period in 2016 because the Saleski pilot was operating for eight months and the Germain CDP was operating for a portion of the first quarter before operations were suspended. Partially offsetting operating expenses in 2015 was the receipt of $5.1 million of insurance proceeds, net of deductions, compensating the Company for certain costs incurred and losses sustained in relation to a third-party natural gas pipeline break at the Germain CDP in the fourth quarter of 2013.

Summary Corporate Results

For the years ended December 31	2016	2015
Other income	**7,856**	8,661
General and administrative expenses, net	**12,730**	22,439
Contract cancellation costs	**2,689**	-
Depreciation and amortization	**4,956**	17,017
Impairment loss (reversal)	**(203,861)**	528,603
Finance income	**410**	4,073
Finance expense	**13,953**	6,732
Loss on substantial modification of notes	**-**	118,353
Reorganization expense	**163**	10,730
Net income (loss) and comprehensive income (loss)	**168,048**	(715,641)

Other income

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

Other income declined by $0.8 million for the year ended December 31, 2016 compared to the year ended December 31, 2015 as a result of decreased third-party use of Laricina’s road. However, higher third-party use of Laricina’s camps during the first and fourth quarters of 2016 partially offset the lower road revenues experienced in 2016.

General and administrative expenses

For the years ended December 31	2016	2015
General and administrative expenses, gross	**10,584**	24,103
Share-based compensation costs (recovery)	**2,146**	(2,488)
Capitalized costs	**-**	824
General and administrative expenses, net	**12,730**	22,439

General and administrative expenses for the year ended December 31, 2016 consisted of essential services only and reflected 16 employees and a small complement of consultants to steward and operate the business. Included in general and administrative expenses for the first quarter of 2016 was a $1.2 million provision for a change of estimate. As discussed in the Significant Events Occurring Subsequent to December 31, 2016 section of this MD&A, the completion of the Settlement Transaction led to a change of control under the terms of certain of the executive employment agreements, giving rise to the right for the executive officers so affected to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. On March 30, 2017, those executive officers tendered their notice to exercise their rights and will be leaving the Company effective April 30, 2017, shortly after which the entitlements will be settled. A $2.2 million provision was recorded at December 31, 2016 in relation to this liability.

In the first quarter of 2015 and over the balance of that year, the Company took various measures to decrease general and administrative costs including the suspension of employee salary increases and performance-based bonus programs, a 90.0 percent reduction in the number of employees and a similar level of curtailment to consulting services. The Company incurred gross severance costs of $6.5 million of which $4.8 million was included in general and administrative expenses and the remainder reflected in operating expenses. In April 2015, a court order under the CCAA proceedings approved the use of a key employee retention plan (the **KERP**) for certain remaining employees. The KERP provided $2.3 million of retention payments to certain employees at the earlier of involuntary termination or December 31, 2015. Of the $2.3 million KERP provision, the Company paid $2.0 million of the KERP during the year for employees who met the aforementioned conditions and $0.3 million was forfeited by employees who voluntarily terminated their employment. Of the $2.0 million of gross KERP payments made, $1.6 million was included in general and administrative expenses and the remainder was reflected in operating expenses.

Laricina's share-based compensation consists of costs associated with stock options and PSUs granted to directors, officers, employees of, and providers of services to the Company. The Company applies the fair value method for stock options and PSUs based on the estimated fair value of the stock options or PSUs on the grant date using the Black-Scholes pricing model. Share-based compensation costs are recognized over the vesting period of the award. As previously described in the Significant Events for the Year Ended December 31, 2016 section of this MD&A, accelerated vesting of all unvested stock options and PSUs occurred on February 5, 2016. Consequently, share-based compensation costs were fully expensed and no additional expense will be recognized until new stock options and PSUs are granted.

There was a recovery of share-based compensation costs for the year ended December 31, 2015 primarily due to the reduction in the number of employees and the resulting forfeitures of unvested stock options and PSUs. This recovery of share-based payments was partially offset by compensation costs for expired stock options that were previously reversed in the prior year.

Capitalized costs consist of general and administrative costs directly related to project exploration and development activities. The Company ceased capitalization of costs after the first quarter of 2015 coinciding with the deferral of Saleski Phase 1 development. In 2015, the Company recorded a reversal of previously capitalized costs concurrent with the forfeitures of unvested stock options and PSUs.

Contract cancellation costs

In the second quarter of 2016, the Alberta Electric System Operator denied ATCO Electric Ltd. (**ATCO Electric**), as transmission facilities owner and on behalf of Laricina as operator of the Saleski Phase 1 project, the request to extend the power permit and license approval in-service date beyond July 1, 2016 which was originally granted in April 2013 for a point-of-delivery power substation and transmission line project (the **Saleski Transmission Project**), thereby cancelling the Saleski Transmission Project. Due to the denial, Laricina and its joint venture partner were contractually obligated to reimburse $4.5 million for costs incurred by ATCO Electric in respect of the Saleski Transmission Project. As a result, the Company has recognized its portion of the costs, $2.7 million, consisting of regulatory, design engineering, material and labour charges that had been accumulated by ATCO Electric since initiating the Saleski Transmission Project in 2011. Where possible, ATCO Electric will return materials and/or transfer them to other projects and reimburse the Company less any applicable charges.

Prior to cancellation of the Saleski Transmission Project, these costs were secured by Laricina in the form of a letter of credit issued to ATCO Electric in the amount of $5.7 million to cover the gross estimated costs incurred and future expenses for all activities related to studies, engineering, material procurement and planning to reach a certain stage of development on behalf of the Saleski project joint venture partners. Upon payment of the contract cancellation costs, the letter of credit was cancelled.

Cancellation of the Saleski Transmission Project at this time does not restrict Laricina from reapplying for services at a future date which will be reevaluated in conjunction with the future development plan for the Saleski project.

Depreciation and amortization

The Company ceased depreciation and amortization at the Germain CDP and the Saleski pilot at the end of the first and third quarters in 2015, respectively, corresponding with the suspension of operations at the facilities. Beginning January 1, 2015, the Company ceased the recapitalization of the Germain CDP depreciation and amortization as the recoverable amounts approximated their carrying values. Recapitalization of depreciation and amortization associated with the Saleski pilot was discontinued September 1, 2015 coinciding with the commencement of activities to suspend operations. As a result of the suspension of operations, there was no depreciation recognized for these projects in 2016.

Depreciation and amortization in 2016 consists of the continuing depreciation associated with property, plant and equipment (**PP&E**) and amortization of certain intangible assets. In the third quarter of 2016, the Company revised the accumulated depreciation balance for PP&E assets by $0.6 million prospectively to recognize the net effect of depreciation calculation errors occurring in prior periods, the impact of which was not material to the financial statements of those prior periods.

Impairment loss (reversal)

As at December 31, 2016, the Company assessed whether any impairment indicators existed and concluded that there have been no new developments to date in 2016 to suggest that the carrying values of E&E assets, PP&E and intangible assets at December 31, 2016 need to be further impaired. However, the assessment also determined that there were indicators that a reversal of previously recognized impairment losses should be performed due to an increase in the CGU's recoverable amount principally driven by a decrease to expected future non-fuel operating costs. As a result, the Company reversed $203.9 million of impairment losses associated with E&E assets for the Germain CGU.

At December 31, 2015, the Company identified indications of impairment for all CGUs due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. As a result, the Company recorded an impairment loss of $528.6 million. This impairment loss was comprised of $175.3 million, $321.2 million, $18.9 million and $13.2 million related to the Saleski CGU, Germain CGU, Burnt Lakes CGU and Other CGU, respectively. This resulted in $498.4 million of impairment loss related to E&E assets and $30.2 million related to intangible assets.

For purposes of determining whether impairment of E&E assets, property, plant and equipment and intangible assets exists, management exercises their judgment in estimating the fair value less costs to dispose (**FVLCD**).

Finance income

Finance income for the years of 2016 and 2015 primarily consisted of interest earned on cash, restricted cash and short-term investments. Finance income for the year ended December 31, 2015 was higher than the corresponding period in 2016 by $3.7 million because of higher cash balances on deposit combined with the effect of higher interest rates applied to those funds. Finance income in the second quarter of 2015 also included $2.8 million of accrued interest relating to the reimbursement of expenditures associated with the UDSR claim.

Finance expense

Finance expense for the years ended December 31, 2016 and December 31, 2015 consisted of interest on the Notes, accretion for the site restoration obligation, changes in fair value upon re-measurement of the liability on the 28.8 million warrants (**Consent Fee Warrants**) issued to the Noteholder in conjunction with the completion of the Settlement Transaction, provision for an acceleration payment on the Notes and accretion associated with the amortized cost of the Continuing Notes. Refer to note 19 to the annual financial statements for a detailed composition of finance expense.

Finance expense for the year ended December 31, 2016 was higher by $7.2 million compared to the same period in 2015 principally due to the reversal of the $9.7 million an acceleration payment provision upon the Noteholder's waiver of all defaults and events of default and release from this obligation in 2015 and to changes in fair value upon re-measurement of the Consent Fee Warrants liability, partially offset by a reduced Notes balance upon which interest is payable.

The Company continued to pay interest to the Noteholder while under CCAA protection. As a result of the events of default at December 31, 2014, the Company was restricted from issuing PIK Notes in lieu of cash payment of interest. Under a provision in the Settlement Agreement, Laricina resumed issuing PIK Notes for interest payments and reimbursable costs of the Noteholder effective July 23, 2015.

Loss on substantial modification of senior secured notes

As a result of the Court approval of the Settlement Agreement on August 5, 2015, the terms of the Initial Notes and PIK Notes under the Indenture were substantially modified as further described in note 1 to the annual financial statements for the year ended December 31, 2015. The substantial modification of the terms resulted in the application of extinguishment accounting causing the derecognition of the existing notes, and recognition at fair value of the liability and equity components of the Amended Notes, Consent Fee Warrants and other warrants contemplated under the Settlement Agreement, with the difference being recognized as the loss on substantial modification of notes of $118.4 million on the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2015.

Reorganization expense

All expenses that have resulted from reorganization activities related to the CCAA proceedings are reported separately from ongoing operations of the business as reorganization expense. Reorganization expense is comprised of legal, monitoring and professional advisory fees associated with the CCAA proceedings. The reorganization expense includes the Noteholder's costs pursuant to a requirement in the Indenture to reimburse reasonable costs of the Noteholder. On February 1, 2016, the Company exited from the protection under the CCAA and, as a result, the costs stemming from the CCAA proceedings ceased.

Income taxes

The Company and its subsidiaries are not currently cash taxable. The Company has not recognized deferred income tax assets in respect of deductible temporary differences and non-capital loss carry-forward balances due to the material uncertainties associated with the probability of generating future taxable profits.

The completion of the Settlement Transaction on November 30, 2015 resulted in an acquisition of control for tax purposes. As a consequence, the Company's non-capital losses and SR&ED carry-forwards generally can only be used to apply to income derived from the “same or similar” business. The exploration and development expenditures tax pools are subject to successor corporation rules and generally only can be applied to income derived from the resource properties held prior to the acquisition of control.

Net income (loss) and comprehensive income (loss)

Net income and comprehensive income for the year ended December 31, 2016 was $168.0 million compared to a net loss and comprehensive loss of $715.6 million for the corresponding period in 2015. The net income and comprehensive income in 2016 was primarily the result of reversing $203.9 million of previously recognized impairment losses associated with E&E assets. The net loss and comprehensive loss in 2015 primarily stemmed from an impairment loss of $528.6 million and a loss on substantial modification of the notes of $118.4 million under the Settlement Agreement in 2015.

Comparatively, operating costs, transportation and blending expenses and depreciation and amortization were lower in 2016 because of the suspension of the Germain CDP and Saleski pilot in 2015. General and administrative expenses decreased year over year as there were fewer employees in 2016 and severance costs were incurred in the first and third quarters of 2015 for which there was no corresponding costs in 2016. Reorganization costs and interest expense decreased in 2016 as the Company exited from the protection under the CCAA on February 1, 2016 and the Notes principal balance outstanding upon which interest is payable was lower, respectively.

These decreases were partially offset by having no bitumen blend sales revenue in 2016 as both projects remaining suspended, incurring contract cancellation costs in respect of the Saleski Transmission Project in the second quarter of 2016, insurance proceeds received in the second and third quarters of 2015 for which there was no corresponding receipts in 2016, reduced finance income as described above, and increased finance expense associated with the changes in fair value upon re-measurement of the Consent Fee Warrants liability and the reversal of an acceleration payment provision in 2015 upon the Noteholder’s waiver of all defaults and events of default and release from this obligation.

Capital Investment

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

For the years ended December 31	**2016**	2015
Exploration and evaluation assets:		
Saleski	**(682)**	3,117
Other	**(186)**	(7,801)
Cash recovery on E&E assets	**(868)**	(4,684)
Cash expenditures (recovery) on PP&E	**(99)**	91
Cash expenditures on capitalized general and administrative expenses	**-**	491
Total cash capital recovery	**(967)**	(4,102)
Non-cash capital expenditures and provisions[1]	**(3,075)**	48
Total capital recovery	**(4,042)**	(4,054)

(1) Non-cash capital expenditures include non-cash capitalized general and administrative costs, non-cash gains or losses on disposal of assets and changes in provisions for site restoration.

Saleski exploration and evaluation assets

During 2015, the Company suspended operations at the Saleski pilot in an effort to conserve capital and preserve the value of the assets. Laricina reached approximately 80.0 percent completion of the engineering and design for Saleski Phase 1 before it was decided to defer any further project development late in the first quarter of 2015. As a result of these events, capital activity for the year ended December 31, 2016 was minimal.

The cash recovery for the year ended December 31, 2016 was primarily the result of the Company's recognition of the refundable portion of the Alberta tax credit for the 2012 and 2013 SR&ED tax credit claims. Of the $0.8 million refundable portion, $0.4 million was applicable to capitalized amounts. The Company received the cash refund from the Government of Alberta on October 28, 2016. The remaining balance of the cash recovery consisted of a refund following an amendment to a vendor contract pertaining to the Saleski Phase 1 project, a nominal sale of a non-essential spare part and joint venture audit adjustments to prior year capital amounts.

In 2015, capital expenditures primarily consisted of engineering and design for Saleski Phase 1 and the acquisition of 1.1 square-kilometres of four-dimensional seismic. These expenditures were partially offset by the Company's recognition of the refundable portion of the Alberta tax credit for the 2010 and 2011 SR&ED tax credit claims. Of the $0.8 million refundable portion, $0.6 million was applicable to capitalized amounts. The cash refund was received on February 4, 2016.

At December 31, 2016 and 2015, Laricina's total land holdings at Saleski were 25,728 net acres.

Germain exploration and evaluation assets

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

At December 31, 2016 and 2015, the Company's total land holdings at Germain were 44,160 net acres.

Other exploration and evaluation assets

Other exploration and evaluation assets capital costs generally relate to the ongoing maintenance of Laricina's remaining oil sands properties. The cash recovery of $0.2 million in 2016 related to the ESEIEH project. Other exploration and evaluation assets cash recovery for the year ended December 31, 2015 was primarily related to the $7.8 million UDSR claim approved by the Government of Alberta.

Total land holdings of the remaining properties were 124,827 net acres at December 31, 2016. For the corresponding period in 2015, total land holdings of the remaining properties were 129,307 net acres. The decrease year-over-year reflects the early surrender of non-prospective lands.

Property, plant and equipment

There have been no capital expenditures for property, plant and equipment in 2016 as the Company continues efforts to conserve cash. Laricina sold excess vehicles, furniture and equipment during the third quarter of 2016 for cumulative proceeds of $0.1 million. Property, plant and equipment additions during 2015 were for corporate assets related to information technology.

Cash expenditures on capitalized general and administrative expenses

Capitalized general and administrative costs consist of expenses directly related to project exploration and development activities. As a result of the deferral of the Saleski Phase 1 development in the first quarter of 2015, the Company no longer capitalizes general and administrative costs.

Non-cash capital expenditures

Non-cash capital expenditures during the year ended December 31, 2016 consisted largely of the change in rate associated with the provision for future site restoration and a change in the estimation of timing of abandonment and reclamation of projects. For the corresponding period in 2015, non-cash capital expenditures included a change in rate associated with the provision for the future site restoration as well as a recovery of previously capitalized non-cash share-based payments.

Intangible Assets

Historically, Laricina recorded intangible assets for the recapitalization of depreciation of certain components of the Saleski pilot and the Germain CDP. Components that were recapitalized consist of items that directly relate to Laricina's understanding of the reservoir and assist in the future assignment of proved reserves.

On January 1, 2015, the Company ceased recapitalization of depreciation for the Germain CDP as the recoverable amount of the Germain cash generating unit approximated its carrying value. The Company recorded $5.5 million of recapitalization for the Saleski pilot in 2015 before ceasing recapitalization on September 1, 2015, concurrent with the commencement of the suspension of operations.

At December 31, 2015, an impairment loss of $30.2 million relating to the recapitalization of certain components of the Saleski pilot was recognized.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**
Working capital (deficiency)	**22,659**	25,961	30,386	41,091	43,798	(56,341)	(30,414)	(27,370)
Cash capital expenditures (recovery)	**(158)**	(292)	(62)	(455)	818	394	(8,194)	2,880
Bitumen blend sales revenue	**-**	-	-	-	(10)	791	1,952	1,797
Finance income	**82**	66	173	89	90	273	3,165	545
Other income	**1,572**	1,855	810	3,619	2,556	2,699	1,579	1,827
Net income (loss) and comprehensive income (loss)	**193,554**	(7,410)	(8,754)	(9,342)	(198,203)	(464,293)	(15,453)	(37,692)
Earnings per share – Basic and diluted	**$ 0.34**	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.82)	$ (6.65)	$ (0.22)	$ (0.54)

Working capital

Positive working capital beginning in the fourth quarter of 2015 was primarily the result of the reclassification of the Continuing Notes and PIK Notes from current liabilities to non-current liabilities following the Noteholder's waiver of all defaults and events of default. Laricina had previously reclassified the Initial Notes and PIK Notes to current liabilities on December 31, 2014 due to the failure to meet the minimum average daily bitumen production volumes covenant in the fourth quarter of 2014. The cash and restricted cash balances are decreasing over time, thereby reducing the overall positive working capital. In the second and third quarters of 2016, a portion of the Continuing Notes and PIK Notes were reclassified to current liabilities as payment is due at the Noteholder's discretion.

Cash capital expenditures (recovery)

Cash capital expenditures for 2015 and 2016 were minimal as the Company has suspended operations at both facilities and deferred further advancement of Saleski Phase 1.

In the first quarter of 2016, the Company recorded a recovery related to the refundable portion of the 2012 and 2013 Alberta SR&ED tax credit claims. The recovery in the third quarter of 2016 was related to the ESEIEH heating project and the disposition of excess vehicles, furniture and equipment. A recovery of $0.2 million was recorded in the fourth quarter of 2016 as a result of a refund following an amendment to an equipment purchase contract pertaining to the Saleski Phase 1 project.

During the second quarter of 2015, Laricina recorded a cash capital recovery for the claim filed with the Government of Alberta in relation to the UDSR claim and the refundable portion of the 2010 and 2011 Alberta SR&ED tax credit claims.

Capital investment activities were previously described in the Capital Investment section of this MD&A.

Bitumen blend sales revenue

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

Finance income

Finance income is decreasing because of the lower average funds held on deposit. The small increase to finance income in the second quarter of 2016 was the result of interest on overdue receivables. The higher finance income in the second quarter of 2015 related to interest income associated with the UDSR claim.

Other income

Fluctuations in other income reflect the variation in third-party use of the Company's camps and road and its impact on the fees charged.

Net income (loss) and comprehensive income (loss)

The net income and comprehensive income for 2016 is described in the Summary Corporate Results section of this MD&A. A $203.9 million reversal of impairment losses in the fourth quarter of 2016 was the primary contributor to the net income and comprehensive income result. Higher net loss and comprehensive loss in the last two quarters of 2015 was principally the result of impairment losses recorded in each of these quarters. In the third quarter of 2015, Laricina also recognized a loss on substantial modification of the Notes under the Settlement Agreement. Beginning in the first quarter of 2015, the following activities were initiated which served to increase the net loss: deferred income tax recoveries were no longer recognized, additional costs were incurred relative to reorganization activities and interest expense associated with the Notes increased due to a rate increase of 200 basis points.

Liquidity and Capital Resources

As at December 31, 2016, Laricina had capital resources of $22.7 million.

Cash, restricted cash and short-term investments	32,468
Non-cash working capital deficit	(9,809)
Capital resources available	**22,659**

The annual financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the year ended December 31, 2016, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current cash and short-term investments position of $32.5 million and the Company's ability to issue PIK Notes in lieu of cash payments of interest and reimbursable costs of the Noteholder, Laricina expects to be able to settle its current liabilities and commitments for the next twelve months. Laricina continues under a scaled-back business plan while exploring alternatives and assessing its future business plans. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond twelve months' time that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover, when operations will resume at the Saleski pilot and Germain CDP and whether these facilities, once operational, will generate sufficient bitumen blend sales revenue to fully recover their operating costs. Laricina is continuing under a scaled-back business plan while identifying and pursuing strategic opportunities to enhance its financial position and advance the Company's activities. However, there is no assurance that the Company will be able to achieve a suitable outcome to fund longer-term working capital deficiencies and repay the debt obligations maturing in March 2021. Given these uncertainties and future outlays, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

Cash, restricted cash and short-term investments

The Company's cash is held in a business operating account with a major Canadian bank bearing interest up to the bank's prime rate minus a certain percentage that varies with the average account balance in the month and for which the resultant interest rates ranged from 0.2 percent to 0.8 percent during 2016. In addition, the Company held excess cash in a high-interest savings account and in guaranteed investment certificates with interest rates ranging from 0.5 percent to 1.0 percent during 2016. The restricted cash secures the Company's demand credit facility with a major Canadian commercial bank and bears interest at the bank's prime rate minus 1.9 percent.

Continuing Notes and PIK Notes

The principal amount of the Continuing Notes outstanding at December 31, 2016 is $33.5 million. The Continuing Notes are carried at their amortized cost of $27.1 million on the consolidated statements of financial position as at December 31, 2016. The difference between the Continuing Notes amortized cost and principal balance will be recorded as a finance expense over the period until the maturity of the Continuing Notes.

PIK Notes may be issued in lieu of cash payment of interest and reimbursable costs of the Noteholder. The principal amount of the PIK Notes outstanding at December 31, 2016 is $5.1 million.

On June 22, 2016, certain events contemplated under the Settlement Agreement concluded thereby obligating the Company to pay $6.1 million to the Noteholder. On August 31, 2016, net proceeds of $1.4 million of certain receivables described in the Settlement Agreement were received by the Company and designated as payable to the Noteholder. Payment of each amount is due at the Noteholder's discretion and when paid will be first applied to any principal outstanding under the PIK Notes and then any remaining balance directed to a partial repayment of principal outstanding under the Continuing Notes. These amounts have been classified to current liabilities on the consolidated statements of financial position as at December 31, 2016

As at December 31, 2016, the Continuing Notes and PIK Notes had a maturity date of March 20, 2018 and bore interest at a rate of 13.5 percent per annum. Effective March 20, 2017, certain terms of the Indenture were amended such that the maturity date of the Continuing Notes and PIK Notes was extended by three years to March 20, 2021 and will bear an annual interest rate of 12.5 percent prospectively.

Credit facility

Laricina has a demand credit facility of $10.0 million secured by an equivalent cash deposit with a major Canadian bank. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. All defaults and events of default that occurred on or before November 30, 2015 relative to this demand credit facility have been waived and no events of default have occurred subsequent.

As of the date of this MD&A, the Company had letters of credit issued totalling $8.1 million under this credit facility and no amount has been drawn. The letters of credit are issued to suppliers of utilities to support the development and reactivation of Saleski and Germain and to the Alberta Energy Regulator to secure the Company's licensee liability rating requirements as operator. The letters of credit of $3.0 million, $4.7 million, $0.1 million, $0.3 million, and a nominal amount are expected to be renewed on July 28, 2017, August 18, 2017, August 31, 2017, December 5, 2017, and August 31, 2017, respectively.

Contractual obligations

The Company had the following cash-settled contractual obligations at April 21, 2017:

	2017	2018	2019	2020	2021	Thereafter	Total
Interest payments on Notes[(1)(2)]	3,645	4,808	5,442	6,155	1,438	-	21,488
Repayment of Notes[(1)(2)]	7,492	-	-	-	32,387	-	39,879
Operating leases	207	34	-	-	-	-	241
Other contractual obligations	476	711	1,071	1,835	1,694	13,407	19,194
Total contractual obligations	**11,820**	**5,553**	**6,513**	**7,990**	**35,519**	**13,407**	**80,802**

(1) If the principal balances of the Continuing Notes and the PIK Notes changes before the maturity date or the timing of the notes repayment is altered, the interest payable will be affected.

(2) At the Company's option, the interest on the Continuing Notes and the PIK Notes and the reimbursement of the reasonable expenses of the Noteholder may be paid in cash or by way of further PIK Notes.

Other contractual obligations include electricity purchases, natural gas purchases and other obligations.

2017 Outlook

The Company's focus and scope of activities is directed to the preservation of the long-term value and optionality of the assets, positioning the Company as a going concern, increasing the probability of attracting capital investment from third parties and the provision of sufficient liquidity runway to more favorable market conditions in which to advance the development of the assets and meet future obligations. A small complement of employees and third-party consultants are continuing under a scaled-back business plan with an emphasis on cost control and are focused on alternatives to leverage the Company's assets and to capitalize on emerging opportunities. While Laricina continues to evaluate its strategic options and await improvements to market conditions, the Company is preparing for a protracted period of suspension.

Outstanding Share Data

At April 21, 2017, share capital consisted of the following:

(thousands)	
Common shares	576,330
Stock options	466
Performance share units	53
Consent Fee Warrants	28,804
Total	**605,653**

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

Non-IFRS Financial Measures

This MD&A may contain references to certain financial measures that do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other entities.

Critical Accounting Estimates and Judgments and Policies

The Company's audited consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared in accordance with IFRS applicable to the preparation of financial statements. Laricina's significant estimates and judgments and accounting policies are described in notes 2 and 3 of the Company's annual financial statements as at and for the year ended December 31, 2016.

The Company has consistently applied the same estimates, judgment and policies throughout all periods presented, except for the estimates, judgment and policies used as at August 5, 2015 to measure and account for the fair value of the Amended Notes, note conversion feature and the Consent Fee Warrants issued.

Risk Management

Laricina's operational and financial success could be affected by a variety of risks related to the oil and natural gas industry, many of which are not in the Company's control. Accordingly, the Company's success depends on the ability to secure additional financing, successful execution of its construction activities and future development. Current risk factors influencing the Company include, but are not limited to, the following:

Going concern

As previously described, the ability of the Company to continue as a going concern requires financing or other alternatives to resume and advance commercial operations at Saleski and Germain, pursue other investment opportunities and to repay the Continuing Notes and PIK Notes in March of 2021 while also funding working capital. The significant decline in oil prices has, among other things, severely constrained Laricina's ability to raise additional capital and there can be no assurance that the Company will be able to obtain additional capital.

Uncertainty of reserves and resources

The substantial majority of the Company's total reserves, contingent resources and prospective resources are undeveloped. These reserves and contingent resources may not ultimately be developed or produced, either because it may not be commercially viable to do so or for other reasons. Furthermore, not all of the Company's undeveloped reserves or contingent resources may be ultimately produced at the time periods Laricina has planned, at the costs Laricina has budgeted or at all. Undeveloped reserves and are subject to greater uncertainty than reserves classified as developed.

Estimating oil sands reserves and resources is inherently uncertain and no assurance can be given that the currently estimated level of reserves and resources or recovery of bitumen will be realized. Reservoir engineering is a partially subjective process of estimating and is highly dependent on the accuracy of the assumptions on which it is based. Assumptions such as historical production from similar properties, the effects of regulation by government agencies, estimated future capital and operating costs, assumptions about future commodity prices and exchange rates, abandonment costs, environmental liabilities, royalty regimes, marketability of production and potential enhanced recovery techniques are used in estimates of economically recoverable bitumen and actual results may vary considerably. Estimates of the economically recoverable bitumen and the classification of such reserves and resources are based on probability of recovery, and the estimates of future net revenue expected from those reserves, prepared by different engineers or by the same engineers at different times, may vary substantially.

Capital requirements and financial resources

The Company anticipates making substantial capital expenditures to fund its share of the costs to develop its oil sands projects and the future acquisition, exploration, development and production of its oil sands resources and reserves. The sources of funding potentially available to the Company include proceeds from equity offerings, the incurrence of additional indebtedness, joint arrangements or the sale of assets. There can be no assurance that debt or equity financing, joint arrangements or cash, if any, that may be generated by future operations will be available or sufficient to meet these capital requirements or for other corporate purposes or, if debt or equity financing or joint arrangements are available, that it will be available on terms acceptable to the Company. The inability to access sufficient capital to fund its capital requirements and operations could result in, among other things, the inability of the Company to conduct exploration and development programs on its assets. Any of these results could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Regulatory

Development of Laricina's oil sands properties depends on the approval of required regulatory applications and permits. Failure to obtain regulatory approvals or failure to obtain them on a timely basis could result in delays, increased costs or in projects not proceeding.

Government regulations may change from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations could affect the timing of Laricina's project development plans or increase costs, which may make future projects uneconomic.

Regulatory approvals require the Company to consult with local communities and stakeholders. While Laricina has an established stakeholder consultation and communication plan, there can be no assurance that the actions or omissions of respective parties will not affect the timing or potential receipt of the necessary approvals to advance the Company's development plans.

Local communities are active in reviewing and participating in the regulatory process. Statements of concern, should they occur, could impact the timing and risks of regulatory approvals.

The Germain CDP and Saleski pilot projects were both suspended in 2015. Laricina presented suspension plans for both projects to the Alberta Energy Regulator and made subsequent applications to reduce the reporting requirements framed under the *Environmental Protection and Enhancement Act* approvals. Laricina is tracking the remaining regulatory requirements to ensure it remains compliant.

Alberta's Land-use Framework, which has been implemented under the *Alberta Land Stewardship Act* (**ALSA**), outlines the Government of Alberta's approach to managing land and natural resources to meet long-term economic, environmental and social goals. The ALSA considers the amendment or removal of previously issued items including regulatory permits, licenses, approvals or authorizations in order to achieve an objective or policy resulting from the implementation of a regional plan. The Government of Alberta's first of seven regional plans is the Lower Athabasca Regional Plan (**LARP**) which came into effect September 1, 2012. The LARP's intent is to identify and set resource and environmental management outcomes for air, land, water and biodiversity and guide future decisions while considering the social and economic impacts. The LARP and the proposed conservation areas do not directly affect any of Laricina's current oil sands leases. The proposed legislation's full impact on the Company cannot be determined until the various regional environmental management outcomes are established. Currently the Government of Alberta is developing the South Saskatchewan Regional Plan, the second of the seven regional plans. The Government of Alberta has not indicated when the Lower Peace Regional Plan will be initiated. This plan may affect Laricina's oil sands leases.

In 2011, the Government of Alberta issued "A Woodland Caribou Policy for Alberta" which focuses on achieving naturally sustaining woodland caribou populations through management of the land base as well as maintaining and restoring habitat. The Government of Alberta has undertaken caribou range action planning to fulfill provincial obligations to be met in 2017 in response to the Federal Government's "Recovery Strategy for Woodland Caribou, Boreal Population in Canada". The impact of the caribou range plans on Laricina's mineral lease development is undeterminable at this time however certain of our near term expiring leases qualify for short term extensions while the plans are finalized.

Estimates of the Company's abandonment and reclamation costs will be a function of regulatory requirements existing at the time that the estimates are made, which are subject to change in the future. A breach of such approvals, laws or regulations may result in the issuance of remedial orders, the suspension of approvals, or the imposition of fines and penalties. In addition, the value of the salvaged equipment may be more or less than the abandonment and reclamation costs. Consequently, the estimates may or may not accurately reflect these future costs. In addition, in the future the Company or the operator of the Company's projects may determine it prudent, or be required by applicable laws or regulations, to establish and fund one or more reclamation funds to provide for payment of future abandonment and reclamation costs, which could result in a material increase in the cost of the Company's projects.

Environmental

Like all natural resource development, oil sands development has an impact on the environment and is subject to environmental regulation. Environmental legislation and regulations provide for, among other things, restrictions or prohibitions on spills or emissions of various substances. They also require that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. No assurance can be given that the current or future environmental laws and regulations will not have an adverse effect on the Company's financial condition. Laricina continues to track and satisfy environmental obligations under the various project, exploration and infrastructure approvals still active with the various regulatory bodies.

On January 1, 2017, the Alberta government enacted new climate change regulations which included a carbon tax that will be applied across all sectors and a cap on oil sand emissions with a target of 100 megatonnes limit in any year by 2030. Currently the Alberta carbon tax has minimal effect on the Company's earnings and cash flow as operations at the Germain CDP and Saleski pilot projects are suspended. These new regulations could have a material adverse impact on the Company's earnings and cash flow in the future and could make future capital investments or the Company's operations uneconomic. There is no assurance that these new regulations will not affect the resumption of operations and further development of the Company's projects.

On December 9, 2016, the federal government and all provinces, except Saskatchewan, signed the Pan-Canadian Framework to meet the federal government's 2030 target of a 30.0 percent reduction in green-house gas emissions. The Pan-Canadian Framework requires all provinces and territories to have a carbon pricing scheme in some form by 2018. To date, there has been no legislation introduced on the federal carbon pricing scheme. These new regulations could have a material adverse impact on the Company's earnings and cash flow in the future and could make future capital investments or the Company's operations uneconomic.

The Germain CDP and Saleski pilot are mandated under the *Canadian Environmental Protection Act* to report releases, disposals and transfers of substances to the National Pollutant Release Inventory (**NPRI**). The Saleski pilot has been reporting to the NPRI since 2011 and the Germain CDP submitted its first report on June 1, 2014. Both projects are currently suspended and emission rates are well below the minimum reporting threshold. At this time, there is no additional financial liability created by the federal regulations but there is an agreement in principle that there will be harmonization with provincial regulations and a suite of flexible compliance mechanisms designed to ensure that the sector's competitiveness is maintained.

Laricina is obligated to provide funding for the joint oil sands monitoring (**JOSM**) initiative that is allocated among companies according to applications under review, approvals, overall production and operational capacities related to oil sands. Laricina has been required to provide funding since 2013 based on the Germain CDP and Saleski Phase 1 projects. The Saleski pilot is exempt from incurring JOSM fees.

Competition

The oil sands industry is highly competitive for the acquisition of reserves, exploration leases and skilled industry personnel. Many competitors in the oil sands industry have significantly greater financial resources than Laricina. Other unconventional oil developments and other energy investments compete for available capital. There can be no assurance concerning the impact of competition on the timing, availability or price of capital. Laricina's success will depend on its ability to enter into joint arrangements with other oil sands development companies, enter into beneficial partnerships with other industry participants, attract individuals with oil sands expertise and attract additional capital.

Royalty regime

On January 29, 2016, the Government of Alberta released the results of its royalty review conducted over 2015. The report of the Royalty Review Advisory Panel made recommendations to improve oil sands processes and transparency of oil sands costs and recommended the Oil Sands Allowed Costs Regulation be updated in consultation with the oil sands industry. On July 11, 2016, the Modernized Royalty Framework was announced by the Government of Alberta and became effective January 1, 2017. On February 21, 2017, the Government of Alberta released amendments to the Oil Sands Royalty Regulations and related regulations. The Modernized Royalty Framework does not affect Laricina's earnings and cash flow at this time as the Company has no production.

The economic benefit of future capital expenditures for any project may depend on a satisfactory royalty regime. An increase in royalties would reduce the Company's earnings and cash flow and could make future capital investments or the Company's operations uneconomic. There can be no assurance that the royalty structure currently in place will remain unchanged as the government of Alberta has publicly indicated that it intends to review its existing royalty regime from time to time.

Exploration, development and production risks

Laricina's success depends on its ability to find, acquire, develop and produce oil at an economically recoverable cost. Oil sands exploration, by definition, involves risk. Laricina will be designing and testing innovative, improved recovery and cost-reduction strategies for *in situ* projects when development of the Company's commercial projects resume. There is no assurance that the Company's development strategy will achieve positive financial results.

Infrastructure

The future development of the Company's commercial projects will depend on certain infrastructure, including roads and camps, pipelines for transportation of diluent and bitumen blend, natural gas fuel pipelines and electricity transmission systems. Delays or restrictions in necessary infrastructure may influence the timing and scale of operations and negatively impact financial results.

Insurance

The exploration for and development of oil sands properties may expose the Company to liability for pollution, well blow-outs, property damage, personal injury or other hazards. Although Laricina obtains insurance to protect against such risks, there are limitations on insurance coverage that may not be sufficient to cover the full extent of such costs, or a particular risk may not be insurable in all circumstances, or the Company may elect not to obtain insurance in certain circumstances. A significant event that is not fully insured against could have a material adverse effect on the Company's financial position.

Assessment of value of acquisitions

Acquisitions of oil and natural gas companies and oil and natural gas assets are typically based on engineering and economic assessments. These include assumptions regarding recoverability and marketability of oil and natural gas, future commodity prices, future operating costs, future capital expenditures, royalties and other government levies. Many of these factors are subject to change and are outside the Company's control. Initial assessments may be based on reports by a firm of independent engineers that may have evaluation methods and approaches that are different from those of the firm engaged by Laricina to complete its annual resource evaluations. As a result, the initial assessments may differ significantly from the assessments by the Company's engineering firm and affect the return on and value of the acquisition.

Foreign exchange

Crude oil prices and certain major equipment costs are generally based on a US dollar market price. Fluctuations in exchange rates between the US dollar and Canadian dollar therefore give rise to foreign currency exchange exposure and could result in adverse effects on Laricina's financial position or future cash flows.

Commodity price risk

Oil prices, natural gas prices, diluent prices and heavy oil differentials fluctuate significantly in response to regional, national and global supply and demand factors that are beyond Laricina's control. The Company's future financial results depend on future demand and on the price movement of the aforementioned commodities, including any negative price effects arising from increased bitumen supplies from competitors.

Any prolonged period of low crude oil and/or high natural gas prices could result in a decision by the Company to further: (i) suspend or slow development activities; (ii) suspend or slow the construction or expansion of bitumen recovery projects; or (iii) suspend or reduce production levels. Any of these actions could have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Operating costs

The cost of natural gas is a significant component of the cost of bitumen production. Laricina's future earnings could be reduced should natural gas prices increase. Higher costs of diluent and hydrocarbon solvents could also reduce future earnings. Any carbon-related charges imposed by government could reduce Laricina's future earnings.

Lack of liquidity

Laricina's common shares are privately held. A future public offering might not lead to an active trading market of its shares or, if developed, one that would be sustainable. There can be no assurance that a future offering for the common shares will be made. Accordingly, an investment in the common shares should only be considered by investors who do not require liquidity.

Reliance on key employees

Laricina's continued success depends on the performance of key employees. Failure to attract and retain key employees with the necessary skills could have an adverse effect on the Company's development, growth and profitability.

Seasonality

Certain of Laricina's properties are in areas that are inaccessible during non-winter months or where activities are restricted due to environmental concerns. Seasonal factors and unexpected weather may delay exploration or development.

Third-party credit risk

The Company is or may be exposed to third-party credit risk through financial instruments, accounts receivable and contractual arrangements with current or future joint operation partners and other parties. Should any counterparties fail to meet their contractual obligations it could affect operations or have a material adverse effect on the Company's financial position or cash flow.

Income taxes

Although Laricina files all required income tax returns and expects to be in compliance with the provisions of the *Income Tax Act* (Canada) and applicable provincial tax legislation, there is no assurance that these returns will not be reassessed by taxation authorities in a way that would have an impact on current and future income taxes payable.

Advisory on Forward-Looking Statements

This MD&A and annual report contain certain forward-looking statements relating to, without limitation, the Company's business and its intentions, plans, expectations, anticipated financial performance or condition including statements relating to the Company's expectations on its ability to discharge liabilities and continue as a going concern in the Liquidity and Capital Resources section of this MD&A. Forward-looking statements may include, but are not limited to, statements concerning estimates of contingent, prospective and recoverable resources; probable and possible reserves; statements relating to the review of the Company's business plans, the preservation and future development of the Company's assets; opportunities and alternatives for additional capital and repayment of indebtedness and other obligations; and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "forecast", "potential" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could", "should" or "will" be taken or occur in the future. The reader is cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur including those specific factors outlined in the Liquidity and Capital Resources section of this MD&A relating to the Company's ability to continue as a going concern. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of April 21, 2017, 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 annual report include those outlined in the Risk Management section of this MD&A and contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements in this MD&A and annual report, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. Unless required by law, the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements in this MD&A and annual report are expressly qualified by this advisory and disclaimer.

Independent Auditor's Report

To the Board of Directors of Laricina Energy Ltd.

We have audited the accompanying consolidated financial statements of Laricina Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2016, and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated statements of financial position as at December 31, 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended were audited by another auditor who issued an unmodified opinion on April 12, 2016.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Laricina Energy Ltd. as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 of the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Laricina Energy Ltd.'s ability to continue as a going concern.

Deloitte LLP

Chartered Professional Accountants
April 21, 2017
Calgary, Alberta

Consolidated Statements of Financial Position

As at December 31

(thousands of Canadian dollars)	Note	**2016**	2015
Assets			
Current assets			
Cash		**22,418**	29,631
Restricted cash	12	**10,000**	10,000
Short-term investments		**50**	50
Trade and other receivables		**3,679**	8,196
Prepaid expenses and deposits	4	**517**	1,440
		36,664	49,317
Non-current assets			
Exploration and evaluation assets	5,6	**555,504**	355,717
Property, plant and equipment	7	**67,561**	71,828
Intangible assets	8	**9,851**	10,476
		632,916	438,021
Total assets		**669,580**	487,338
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**6,513**	5,519
Current portion of continuing notes and payment-in-kind notes	11	**7,492**	-
		14,005	5,519
Non-current liabilities			
Continuing notes and payment-in-kind notes	11	**24,679**	21,840
Consent fee warrants	13	**5,012**	2,135
Site restoration provision	9	**45,991**	48,148
Total liabilities		**89,687**	77,642
Shareholders' equity			
Share capital	13	**1,415,823**	1,411,835
Contributed surplus		**170,827**	172,666
Deficit		**(1,006,757)**	(1,174,805)
Total shareholders' equity		**579,893**	409,696
Total liabilities and shareholders' equity		**669,580**	487,338

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

Contractual obligations (note 23)
Subsequent events (notes 2, 11, 12, 17, 21, 23)

On behalf of the Board:

Ian D. Bruce

Ian D. Bruce
Director

Andrew Darling

Andrew Darling
Director

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the years ended December 31

(thousands of Canadian dollars)	Note	**2016**	2015
Revenue			
Bitumen blend sales		**-**	4,530
Royalties		**2**	(48)
		2	4,482
Other income	14	**7,856**	8,661
		7,858	13,143
Expenses			
Transportation and blending		**-**	3,375
Operating		**9,460**	25,465
Pre-exploration		**130**	143
General and administrative		**12,730**	22,439
Contract cancellation costs	18	**2,689**	-
Depreciation and amortization	6,7,8	**4,956**	17,017
Impairment loss (reversal)	5	**(203,861)**	528,603
		(173,896)	597,042
Net income (loss) from operating activities		**181,754**	(583,899)
Finance income		**410**	4,073
Finance expense	19	**(13,953)**	(6,732)
Loss on substantial modification of notes	11	**-**	(118,353)
Net finance expense		**(13,543)**	(121,012)
Reorganization expense	4	**(163)**	(10,730)
Net income (loss) and comprehensive income (loss)		**168,048**	(715,641)
Earnings (loss) per common share	20		
Basic and diluted		**$ 0.29**	$ (6.34)

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

Consolidated Statements of Changes in Equity

(thousands of Canadian dollars)	Note	**Share capital**	**Contributed surplus**	**Deficit**	**Total equity**
Balance as at December 31, 2014		1,342,679	57,926	(459,164)	941,441
Net loss and comprehensive loss		-	-	(715,641)	(715,641)
Shares issued, net of share issuance costs	13	60,468	-	-	60,468
Share-based net recoveries	13	-	(2,488)	-	(2,488)
Performance share units exercised	13	8,688	(8,684)	-	4
Equity component of notes		-	125,912	-	125,912
Balance as at December 31, 2015		1,411,835	172,666	(1,174,805)	409,696
Net income and comprehensive income		-	-	168,048	168,048
Share-based payments	13	-	2,146	-	2,146
Performance share units exercised	13	3,988	(3,985)	-	3
Balance as at December 31, 2016		**1,415,823**	**170,827**	**(1,006,757)**	**579,893**

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

Consolidated Statements of Cash Flows

For the years ended December 31

(thousands of Canadian dollars)	Note	**2016**	2015
Cash flows from (used in) operating activities			
Net income (loss) and comprehensive income (loss)		**168,048**	(715,641)
Adjustments for:			
Depreciation and amortization	6,7,8	**4,956**	17,017
Equity-settled share-based payments (recovery)	13	**2,146**	(1,173)
Loss on disposal of exploration and evaluation assets	6	**15**	-
Gain on disposal of property, plant and equipment	7	**(99)**	-
Non-cash reimbursable costs to the Noteholder	11	**216**	34
Impairment loss (reversal) on exploration and evaluation assets and intangible assets	5	**(203,861)**	528,603
Loss on substantial modification of notes	11	**-**	118,353
Provision for the acceleration payment	19	**-**	(9,741)
Non-cash finance expense (recovery)		**13,961**	(963)
		(14,618)	(63,511)
Net change in non-cash operating working capital	22	**3,652**	(2,416)
Net cash used in operating activities		**(10,966)**	(65,927)
Cash flows from (used in) investing activities			
Exploration and evaluation assets			
Expenditures	6	**(1)**	(4,262)
Recoveries	6	**794**	8,364
Proceeds from disposal	6	**75**	-
Proceeds from disposal of property, plant and equipment	7	**99**	-
Change in restricted cash		**-**	5,000
Change in short-term investments		**-**	50,950
Net change in non-cash investing working capital	22	**2,799**	(10,028)
Net cash from investing activities		**3,766**	50,024
Cash flows from (used in) financing activities			
Proceeds from the issuance of common shares, net of share issuance costs	13	**3**	473
Repayment of notes	11	**-**	(68,856)
Net change in non-cash financing working capital	22	**(16)**	15
Net cash used in financing activities		**(13)**	(68,368)
Net decrease in cash		**(7,213)**	(84,271)
Cash, beginning of year		**29,631**	113,902
Cash, end of year		**22,418**	29,631

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

1. Corporate Information

Laricina Energy Ltd. (**Laricina** or the **Company**) was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). Laricina is a private, Calgary-based responsible energy company with the goal to create value by developing Canada's *in situ* hydrocarbon resources using innovative technologies. The Company has a diverse portfolio of oil sands assets at varied stages of development. Two core development areas have been identified, Germain and Saleski. The Company has an undivided interest in Germain and all other of its oil sands assets except for Saleski where the Company's working interest is 60.0 percent.

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

Following the March 16, 2015 receipt of a demand for payment of all the outstanding indebtedness by the sole lender (the **Noteholder**) and a notice of intention to enforce security against the assets of the Company, Laricina and its wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., filed for and were granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) pursuant to an order of the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the **Court**) dated March 30, 2015 with effect as of March 26, 2015. On June 28, 2015, Laricina and the Noteholder agreed upon a non-binding term sheet setting out the terms of a settlement arrangement (the **Settlement Agreement**) relating to the repayment of the outstanding indebtedness to the Noteholder. That term sheet resulted in the parties entering into the binding Settlement Agreement on July 20, 2015, and the Court, in the Company's CCAA proceedings, approved that Settlement Agreement on August 5, 2015. The Company was recapitalized on November 30, 2015 pursuant to the Settlement Agreement and the completion of the settlement transaction (the **Settlement Transaction**). Laricina continued to be protected from creditors for the balance of 2015 and exited from protection under the CCAA effective February 1, 2016. The CCAA proceedings, Settlement Agreement and Settlement Transaction are further described in note 1 to the audited consolidated financial statements as at and for the year ended December 31, 2015.

The Company has paid in full all accounts in respect of its CCAA proceedings. The final court order contained a condition requiring Laricina to set aside a reserve of $1.8 million against which the payment of the remaining $0.8 million of unpaid proven claims approved under a claims process (the **Claims Process**) would be drawn and an outstanding disputed claim of $1.0 million could be drawn. As at the end of 2016, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve fund and, accordingly, the funds remaining have been released.

Pursuant to the terms of the Settlement Agreement, the board of directors of Laricina was reconstituted on February 5, 2016. The Noteholder was entitled to nominate three of the five directors by virtue of its registered and beneficial ownership interest in the equity of Laricina.

The Company's current focus is on preserving the integrity and value of its assets and on exploring alternatives to potentially resume development of its oil sands properties when favorable market conditions return.

2. Basis of Preparation

Statement of compliance

These audited consolidated financial statements of the Company and its wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., as at and for the year ended December 31, 2016 (the **annual financial statements**) have been prepared and reported in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

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

These annual financial statements were approved for release to shareholders by the Board of Directors on April 21, 2017.

Basis of presentation

These annual financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

For the year ended December 31, 2016, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current cash and short-term investments position of $32.5 million and the Company's ability to issue payment-in-kind notes (**PIK Notes**) in lieu of cash payments of interest and reimbursable costs of the Noteholder, Laricina expects to be able to discharge its trade and other payables, remaining unpaid proven claims, contractual obligations and any current portion of debt outstanding for the next twelve months. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond twelve months' time that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover, when operations will resume at the Saleski pilot and Germain CDP and whether these facilities, once operational, will generate sufficient bitumen blend sales revenue to fully recover their operating costs. Laricina is continuing under a scaled-back business plan while identifying and pursuing strategic opportunities to enhance its financial position and advance the Company's activities. However, there is no assurance that the Company will be able to achieve a suitable outcome to fund longer-term working capital deficiencies and repay the debt obligations maturing in March 2021. As such, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

2. Basis of Preparation (continued)

Basis of consolidation

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

Interests in joint arrangements are classified as either joint operations or joint ventures, depending on the rights and obligations of the investor. Joint operations arise when the Company has rights to the assets and obligations for the liabilities of the arrangements. Joint operations require a company to recognize its share of assets, liabilities, revenue and expenses. Some of the Company’s activities involve joint operations. The consolidated financial statements include the Company’s share of these joint operations and the Company’s share of the respective revenues and related costs.

Basis of measurement

The consolidated financial statements were prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities which are measured at fair value. The notes (the **Continuing Notes**) issued under the indenture dated March 20, 2014, as supplemented by the first supplemental indenture dated as of November 30, 2015 and the second supplemental indenture dated as of March 20, 2017 (collectively, the **Indenture**) are carried at amortized cost which is their approximate fair value. There have been no changes in the year to the assumptions underlying this fair value. The Consent Fee Warrants (as defined in note 13) are re-measured each period to determine the fair value and any changes to the carrying value are reflected in profit or loss. The methods used to measure fair value are discussed in note 3.

Functional and presentation currency

The annual financial statements are presented in Canadian dollars, the Company’s functional currency.

Use of estimates and judgments

The preparation of consolidated 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 and judgments are based on management’s best understanding of current events and actions that the Company may undertake in the future. Actual results may differ from these estimates and judgments. Significant estimates and judgments used in the preparation of the consolidated financial statements include, but are not limited to, the valuation of exploration and evaluation (**E&E**) assets (note 6), property, plant and equipment (**PP&E**) (note 7), intangible assets (note 8), site restoration provisions (note 9), deferred income tax assets (note 10), the Continuing Notes (note 11), and share-based payments and the Consent Fee Warrants (note 13).

Asset valuation

The recoverability of E&E assets requires judgement in determining whether it is likely that future economic benefit exists when activities have not reached a stage where technical feasibility and commercial viability can be reasonably determined and when technical feasibility and commercial viability have been reached. Estimates and assumptions may change as new information becomes available.

The amounts recorded for depreciation of E&E assets, PP&E assets and intangible assets are based on estimates of useful life. Estimates and underlying assumptions are reviewed on an ongoing basis, at least annually. Revisions to accounting estimates are recognized in the year in which the estimates are revised. IFRS requires that the Company's oil sands assets be aggregated into cash-generating units (**CGU**s) which are classified based on their ability to generate independent cash inflows and upon with such assets are assessed for impairment. The determination of the Company's CGUs is subject to management's judgment. Estimates of reserves and resources and future costs are used to assess impairment and are subject to measurement uncertainty. The estimation of reserves and resources is a subjective process and is based on forecasts which are subject to uncertainties such as geological and engineering data, projected future rates of production, commodity pricing and the timing of future capital expenditures. Revisions to reserve and resource estimates could occur from the results of future drilling, testing, production levels and economics of recovery.

The decision to transfer assets from E&E assets to PP&E is based on management's assessment of technical feasibility and commercial viability, which is subject to judgment.

Site restoration provision

The site restoration provision is based on current legal and constructive requirements, technology, estimated costs and expected timing for remediation. The obligation is the present value of the estimated cash flows required for an asset's future abandonment. Actual costs can differ from estimated costs because of changes in laws and regulations, discovery and analysis of site conditions, changes in technology and changes in discount rates. Estimating the timing, amount, and value of these retirement costs is subject to judgment.

Tax asset and liability valuation and utilization of tax losses

The determination of deferred income tax assets and liabilities requires interpretation of complex laws and regulations, and deferred income tax assets and liabilities are recognized at tax rates expected to be in effect at the estimated timing of reversal of temporary differences between the accounting and tax values of certain assets and liabilities.

Deferred income tax liabilities are recognized when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome.

Deferred income tax assets are recognized to the extent that it is probable that the deductible temporary differences will be recoverable in future periods. The recoverability assessment involves a significant amount of estimation including an evaluation of when the temporary differences will reverse, an analysis of the amount of future taxable profits, and the application of tax laws.

2. Basis of Preparation (continued)

Valuation of the Continuing Notes and Consent Fee Warrants

The fair values of the Continuing Notes and Consent Fee Warrants were measured at the present value of the expected payments discounted using a risk adjusted discount rate. The expected payments were determined by considering the possible scenarios of amounts to be paid under each scenario and the probability of each scenario occurring.

The expected payments related to the Consent Fee Warrants are also dependent on an estimate of the fair value of the Company's share price at the respective measurement date. The estimated timing, amounts and value of these payments are subject to judgment and they may differ from the actual payment.

Pursuant to the anti-dilution provisions contained in the warrant certificate, the Consent Fee Warrant exercise price is subject to adjustment and, as such, entitles the Noteholder to a variable number of warrants. The fair value of the Consent Fee Warrants is measured at the end of each reporting period using the Black-Scholes option pricing model which is based on significant assumptions and is dependent on an estimate of the fair value of the Company's share price at the respective measurement date.

Share-based payments

Share-based payments are subject to estimation as they are calculated using the Black-Scholes option pricing model, which is based on significant assumptions such as volatility and forfeiture rate.

3. Summary of Significant Accounting Policies

The accounting policies set out below were applied consistently by the Company and its subsidiaries to all years presented in these annual financial statements.

Exploration and evaluation assets

Costs of exploring for and evaluating oil sands properties are initially capitalized and may include costs of lease 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 as they are incurred.

E&E assets are not depleted or amortized until the earlier of the asset coming into use as management intended and 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 the planned commercial level of proved reserves has been assigned.

E&E assets that are in use as management intended are depreciated and recapitalized as intangible assets until technical feasibility and commercial viability of extracting a mineral resource can be determined. Once this has occurred, the underlying intangible asset is transferred to development and producing (**D&P**) assets and subsequently depleted.

Other E&E assets, including facilities and infrastructure, are depreciated when they are used to support the determination of proved reserves using reservoir data. The depreciation of these assets is recognized in profit or loss.

Property, plant and equipment

PP&E consists of assets which have been transferred from E&E assets to D&P assets, facilities and other equipment, and corporate assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability, and costs of replacing parts of D&P assets are recognized as PP&E only when they increase the future economic benefits embodied in the specific asset to which they are related.

Such costs generally represent costs incurred in developing proved or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a project-area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day maintenance of PP&E are recognized in profit or loss as incurred.

Gains and losses on disposal of an E&E asset or PP&E are determined by comparing the proceeds from disposal with the carrying amount of the E&E asset or PP&E and are recognized in profit or loss.

Intangible assets

Intangible assets consist of payments made to third parties to expand the availability of infrastructure for the Company's future development projects and the recapitalization of the depreciation of specific E&E assets.

Depreciation, depletion and amortization

The net carrying value of E&E assets is depreciated based on useful life which approximates a unit of production basis. E&E assets which are producing bitumen and gathering information about the reservoir to assist in the determination of technical feasibility and commercial viability of extracting mineral resources are recapitalized as intangible assets.

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 proved plus probable reserves, taking into account the future development costs necessary to bring the related reserves into production. The estimate of future development costs is reviewed annually by independent reservoir engineers.

Proved plus probable reserves are estimated using independent reservoir engineering 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 of the expected production; and

3. Summary of Significant Accounting Policies (continued)

- 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 proved plus 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, provides support for the engineering analysis on which the project was based.

For facilities and other equipment, depreciation is recognized in profit or loss on a straight-line basis over their estimated useful lives of 25 years. For corporate assets, depreciation is recognized in profit or loss on a straight-line basis over their estimated useful lives at annual rates of 20.0 to 30.0 percent.

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

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

Amortization of intangible assets related to infrastructure is recognized in profit or loss on a straight-line basis over the 20-year term of the related contract.

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 to the associated asset.

Minimum lease payments made under finance leases are allocated between finance expense and the reduction of the outstanding liability.

Operating leases are not recognized in the Company's consolidated statements of financial position. Payments made under operating leases are recognized as expenses on a straight-line basis over the lease term.

Impairment

A financial asset is assessed at each reporting date for objective evidence indicating that impairment has occurred, such as one or more events that might have a negative effect on the asset's estimated future cash flows. Trade and other receivables and inventories are tested for impairment on an individual basis with the remaining financial assets assessed in groups that have similar credit risk. An impairment loss of a financial asset is recognized in profit or loss and is calculated as the difference between the 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 there is an indication of impairment, the asset's recoverable amount is estimated.

E&E assets are allocated to CGUs for purposes of assessing whether or not the assets must be transferred to the D&P category within PP&E and for performing impairment testing when there are indicators of impairment. A review of each exploration project is performed, at least annually, to establish whether significant proved reserves have been assigned by independent reservoir engineers.

Upon determination of proved reserves, E&E assets attributable to these reserves are tested for impairment within the associated CGU and then transferred to D&P assets based on the carrying value of costs associated with proved and probable reserves of the underlying assets. For the purposes of impairment testing, assets are grouped into the smallest group of assets that generates independent cash inflows from continuing use, being the CGU.

The Company uses the following CGUs for E&E assets: Saleski, Germain, Burnt Lakes and Other. The recoverable amount of the asset or CGU is the greater of its value in use (**VIU**) and its fair value less costs to dispose (**FVLCD**). The Company's corporate assets do not generate separate cash inflows. Corporate assets are allocated to the CGUs on a pro-rata basis.

In assessing VIU, 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 asset's specific risks. VIU is generally calculated using the present value of the future cash flows expected to be derived from the production of proved and probable reserves.

FVLCD is defined as the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognized if the carrying amount of an asset or 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 reversal of an impairment loss is the lower of the recoverable amount and the carrying value of the asset, net of depreciation, amortization or depletion, as if no previous impairment existed.

The Company assesses the impairment of E&E assets, before and at the moment of reclassification to PP&E, using E&E CGUs. After the reclassification to PP&E on the basis of technical feasibility and commercial viability, D&P 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 payment 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.

3. Summary of Significant Accounting Policies (continued)

The Company recognizes a provision for site restoration obligations as its activities 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 E&E asset or PP&E.

The site restoration provision is measured at the present value of management's best estimate of expenditures required to settle the obligation at the reporting date.

Subsequent to the initial measurement, the provision is adjusted at the end of each reporting 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 estimated expenditures were provided for.

Share-based payment arrangements

The Company applies the fair value method for stock options and performance share units (**PSU**s) granted. Compensation costs are recognized over the vesting period of the award based on the estimated fair value of the stock options or PSUs on the grant date using the Black-Scholes pricing model, with a corresponding increase to contributed surplus.A forfeiture rate is estimated on the grant date and is adjusted over time to reflect the actual number of stock options or PSUs 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 (**SAR**s), 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 product ownership are transferred to the buyer, the sales price can be measured reliably and it is probable that economic benefits will flow to the Company. This is generally met at the time the product is delivered to a sales terminal.

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

Finance income and finance expense

Finance income is recognized as it accrues using the effective interest rate method. Finance expense consists of amortization of debt issue costs, interest recognized on the Initial Notes, Amended Notes and Continuing Notes, a provision for an acceleration payment amount on the Notes, the changes in fair value upon re-measurement of the Consent Fee Warrants liability, accretion for the site restoration provision, and the accretion associated with the amortized cost of the Amended Notes and Continuing Notes.

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 or substantively 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 profits 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.

Flow-through common shares

A portion of the Company's exploration activities has been financed through the issuance of flow-through common shares. Under the terms of the common share issuance, the related resource expenditure deductions are renounced to the shareholders in accordance with income tax legislation. Flow-through common shares issued are recorded in share capital at the fair value of common shares on the date of issuance. The premium received on issuing flow-through common shares is initially recorded as a deferred credit. As qualifying expenditures are incurred, the premium is reversed and a deferred income tax liability is recorded. The net amount is then recognized as deferred income tax expense.

Government assistance

The Company receives funding from the Government of Alberta related to energy technology. This assistance is recorded as a reduction to the corresponding asset or expense when there is reasonable assurance of collection.

Earnings (loss) per share

Basic earnings (loss) per common share is calculated using the weighted-average number of common shares issued and outstanding during the reporting period.

Financial instruments

Financial instruments are initially recognized in the consolidated statement of financial position at fair value. Subsequent measurement of 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.

3. Summary of Significant Accounting Policies (continued)

Cash and restricted cash are comprised of cash balances and high interest savings accounts that may be redeemed at the Company's option. Short-term investments are comprised of guaranteed investment certificates that are not redeemable at the Company's option. Trade and other receivables are classified as loans and receivables, while trade and other payables are classified as other financial liabilities. The Consent Fee Warrants are classified as a financial liability at fair value through profit or loss.

The fair value of cash, restricted cash, short-term investments, trade and other receivables, and trade and other payables approximated their carrying value at December 31, 2016 and December 31, 2015 due to their short-term nature. The Continuing Notes are carried at their amortized cost which is their fair value. The Consent Fee Warrants are re-measured each period to determine the fair value and any changes to the carrying value are reflected in profit or loss. The Company has not designated any financial instruments as available-for-sale.

Determination of fair values

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

Level 1 fair value measurement
Level 1 fair value measurements are based on unadjusted quoted market prices in active markets that the Company can access at the measurement date.

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

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

The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2016 and December 31, 2015.

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

Changes in accounting policies

There were no changes to the accounting standards adopted during the year ended December 31, 2016.

New accounting standards and interpretations not yet adopted

Laricina is currently assessing the impact on the Company's consolidated financial statements of the adoption of the amendments to accounting standards set out in this section.

On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. Under IFRS 16, a single recognition and measurement model will apply for lessees requiring recognition of assets and liabilities for most leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

On January 19, 2016, the IASB issued amendments to IAS 12 *Income Taxes*, relating to the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

On January 29, 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*, requiring an entity to disclose changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

On April 12, 2016, the IASB issued amendments to IFRS 15 *Revenue from Contracts with Customers,* clarifying three aspects of the standard (identification of performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 15 will be adopted by Laricina on January 1, 2018.

On June 20, 2016, the IASB issued amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions,* clarifying the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

In July 2014, the IASB issued IFRS 9, *Financial Instruments,* which is intended to replace IAS 39, *Financial Instruments: Recognition and Measurement* and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, a corporation can recognize the portion of the change in fair value related to the change in the corporation’s own credit risk through other comprehensive income rather than net earnings. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 9 will be adopted by the Company on January 1, 2018.

4. Retainers and Reorganization Expense

As at December 31, 2016, there are no professional advisor retainers outstanding relating to the CCAA proceedings described in note 1 outstanding ($0.5 million at December 31, 2015) and all funds have been returned to the Company.

As described in note 1, a $1.8 million reserve relating to the Claims Process was established at the time of the final court order in respect of the CCAA proceedings and included in prepaid expenses and deposits.

4. Retainers and Reorganization Expense (continued)

As at December 31, 2016, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve and, accordingly, the $0.4 million of reserve funds remaining have been released and reclassified to cash.

Reorganization expense of $0.2 million ($10.7 million at December 31, 2015) is comprised of legal, monitoring and professional advisory fees associated with the CCAA proceedings as well as the Noteholder's costs pursuant to a requirement in the Indenture to reimburse the reasonable costs of the Noteholder.

5. Impairment

Impairment testing is conducted for a CGU, being the smallest group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. For purposes of determining whether impairment losses or reversals of E&E assets, PP&E and intangible assets exist, management exercises their judgment in assessing whether or not there are indicators of impairment or reversals of previously recorded impairment.

If indicators exist, the recoverable amount is determined based on estimating the FVLCD which is based on management's best judgement and estimates. Fair value measurements are classified as one of three levels, which are described in note 3 of these annual financial statements. The FVLCD values used to determine the recoverable amounts of each CGU are classified as Level 3 fair value measures as they are based on the Company's estimate of key assumptions that are not based on observable market data.

At December 31, 2016, there were indicators of potential impairment reversals for the Saleski and Germain CGUs primarily driven from the reduced cost of inputs and recent market activity. The fair values for the Saleski and Germain CGUs were calculated based on discounted after-tax cash flows of independently evaluated proved and probable reserves and unrisked best estimate contingent resources using forward prices and cost estimates. The key assumptions in determining these future cash flows include crude oil and natural gas prices, timing of development, costs to develop and operate, and an after-tax discount rate of 13.1 percent for the Germain CGU and of 13.3 percent for the Saleski CGU (no change from December 31, 2015).

Based on this assessment, it was determined that a reversal of previously recognized impairment losses should be performed due to an increase in the CGU's recoverable amount principally driven by a decrease to expected future non-fuel operating costs. As a result, the Company reversed $203.9 million of impairment losses for the Germain CGU. The Company utilized the following forward prices from its reserve evaluator as at December 31, 2016 to determine future cash flows from crude oil reserves:

	Natural Gas	Crude Oil	
	AECO Gas Price (Cdn$/MMBtu)	Western Canadian Select (Cdn$/barrel)	West Texas Intermediate (US$/barrel)
2017	$3.46	$53.32	$55.00
2018	$3.10	$56.79	$59.00
2019	$3.27	$61.27	$64.00
2020	$3.49	$63.00	$67.00
2021	$3.67	$65.90	$71.00
2022	$3.86	$69.42	$74.00
2023	$4.05	$72.91	$77.00
2024	$4.16	$76.45	$80.00
2025	$4.24	$79.93	$83.00
2026	$4.32	$83.47	$86.05
Thereafter	+2.0%/year	+2.0%/year	+2.0%/year

As at December 31, 2016, the Company assessed also whether any impairment indicators existed for the Burnt Lake and Other CGUs and concluded that there have been no new developments to date in 2016 to suggest that the carrying values of E&E assets, PP&E and intangible assets at December 31, 2016 need to be further impaired.

At December 31, 2015, Laricina had indications of impairment on all CGUs due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. As a result, the Company recorded an impairment loss of $528.6 million in 2015.

The impairment loss was comprised of the following amounts related to each asset category and the respective CGU:

CGU	E&E assets	Intangible assets	Total
Saleski	145,070	30,206	175,276
Germain	321,248	-	321,248
Burnt Lakes	18,876	-	18,876
Other	13,203	-	13,203
Impairment loss	**498,397**	**30,206**	**528,603**

6. Exploration and Evaluation Assets

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 for E&E assets during the year. There were no amounts transferred to PP&E during 2015 and 2016.

Cost	
Balance as at December 31, 2014	1,127,157
Additions	2,855
Transfer of materials inventory	4,398
Change in site restoration provision (note 9)	1,364
Recoveries	(8,364)
Balance as at December 31, 2015	1,127,410
Additions	1
Disposals	(90)
Change in site restoration provision (note 9)	(3,127)
Recoveries	(794)
Balance as at December 31, 2016	**1,123,400**
Accumulated depreciation	
Balance as at December 31, 2014	(256,457)
Depreciation	(16,839)
Impairment loss (note 5)	(498,397)
Balance as at December 31, 2015	(771,693)
Depreciation	(64)
Reversal of impairment loss (note 5)	203,861
Balance as at December 31, 2016	**(567,896)**
Carrying amounts	
As at December 31, 2015	355,717
As at December 31, 2016	**555,504**

On January 29, 2016, the Canada Revenue Agency (the **CRA**) approved the 2012 and 2013 Scientific Research and Experimental Development (**SR&ED**) tax credit claims. As a result, $0.4 million of the $0.8 million refundable portion of the Alberta tax credit was recognized as a capital recovery and reduced E&E assets accordingly. The Company received the cash refund inclusive of associated interest from the Government of Alberta on October 28, 2016. The remaining balance of the recoveries in 2016 was primarily for a recovery related to the Enhanced Solvent Extraction Incorporating Electromagnetic Heating project and a refund following an amendment to an equipment contract pertaining to the Saleski Phase 1 project.

Depreciation of the central processing facility and related infrastructure associated with the Saleski pilot and the Germain CDP has been recorded in profit or loss. The depreciation of assets providing additional reservoir information was recapitalized as intangible assets. In 2015, the Company ceased depreciating the assets providing additional reservoir information at the Germain CDP and Saleski pilot and the recapitalization to intangibles, as the facilities were suspended at the end of the first and third quarters, respectively.

7. Property, Plant and Equipment

	Facilities and other equipment	Corporate assets	Total
Cost			
Balance as at December 31, 2014	85,067	10,416	95,483
Additions	-	91	91
Balance as at December 31, 2015	85,067	10,507	95,574
Disposals	-	(32)	(32)
Balance as at December 31, 2016	**85,067**	**10,475**	**95,542**
Accumulated depreciation			
Balance as at December 31, 2014	(11,182)	(7,469)	(18,651)
Depreciation	(3,403)	(1,692)	(5,095)
Balance as at December 31, 2015	(14,585)	(9,161)	(23,746)
Disposals	-	32	32
Depreciation	(3,402)	(865)	(4,267)
Balance as at December 31, 2016	**(17,987)**	**(9,994)**	**(27,981)**
Carrying amounts			
As at December 31, 2015	70,482	1,346	71,828
As at December 31, 2016	**67,080**	**481**	**67,561**

As at December 31, 2016 and December 31, 2015, assets held under a finance lease are included in facilities and other equipment with a gross carrying value of $15.0 million and accumulated depreciation of $3.6 million and $3.0 million, respectively.

8. Intangible Assets

	Infrastructure expansion	Depreciation of E&E assets	Total
Cost			
Balance as at December 31, 2014	12,509	40,509	53,018
Additions	-	5,542	5,542
Balance as at December 31, 2015	12,509	46,051	58,560
Balance as at December 31, 2016	**12,509**	**46,051**	**58,560**
Accumulated amortization			
Balance as at December 31, 2014	(1,408)	(15,845)	(17,253)
Amortization	(625)	-	(625)
Impairment loss (note 5)	-	(30,206)	(30,206)
Balance as at December 31, 2015	(2,033)	(46,051)	(48,084)
Amortization	(625)	-	(625)
Balance as at December 31, 2016	**(2,658)**	**(46,051)**	**(48,709)**
Carrying amounts			
As at December 31, 2015	10,476	-	10,476
As at December 31, 2016	**9,851**	**-**	**9,851**

At December 31, 2016 and December 31, 2015, the Company had intangible assets with a gross carrying value of $12.5 million relating to payments made to a third party to expand the availability of power for the Company's future development projects at Germain. The amortization of this asset commenced during 2012 when the expansion was completed and will be recognized over the 20-year term of the contract with the third-party provider.

At December 31, 2016 and 2015, the Company had no intangible assets relating to the recapitalization of the depreciation of E&E assets due to the impairment taken in 2015 as described in note 5. During the second quarter of 2011 and the first quarter of 2014, the Company commenced production from the Saleski pilot and Germain CDP, respectively. Although no proved reserves have been assigned to these projects, these projects were operating as management intended, and as a result, depreciation of the related assets was recognized. The depreciation of assets which directly contribute to the continued understanding of the reservoir and assist in the future assignment of proved reserves was recapitalized as an intangible asset. During the first and third quarters of 2015, operations were suspended at the Germain CDP and the Saleski pilot, respectively. As a result, the Company has ceased depreciation of the related assets and the corresponding recapitalization as an intangible asset.

9. Site Restoration Provision

Balance as at December 31, 2014	45,755
Revisions due to change in discount rate	1,364
Accretion (note 19)	1,029
Balance as at December 31, 2015	48,148
Revisions due to change in discount rate	(1,034)
Revisions due to change in estimates	(2,093)
Accretion (note 19)	970
Balance as at December 31, 2016	**45,991**

Laricina's total future site restoration obligation is estimated based on the Company's net ownership interest in all wells, facilities, roads, infrastructure and camps, estimated costs to reclaim and abandon these assets, and the estimated timing of the costs to be incurred in future years.

The Company has estimated the net present value of these site restoration obligations to be $46.0 million as at December 31, 2016 ($48.1 million at December 31, 2015) based on an undiscounted total future liability of $109.7 million ($81.6 million at December 31, 2015). These obligations are expected to be settled over the next 40 years with the majority of the costs to be incurred between 2030 and 2060. The discount factor, being the risk-free rate related to the liability, was 2.3 percent at December 31, 2016 (2.2 percent at December 31, 2015).

During the year ended December 31, 2016, the Company reviewed the underlying assumptions in respect of the timing of reclamation for the Saleski pilot and Germain CDP facilities. A downward revision in the site restoration provision, primarily related to the site restoration obligation associated with the Germain CDP, resulted.

10. Income Taxes

The provision for income taxes differs from the amount which would be expected by applying the combined federal and provincial statutory income tax rates to loss before tax. A reconciliation of the difference for the years ended December 31 is as follows:

	2016	2015
Reconciliation of effective tax rate		
Income (loss) before income tax	**168,048**	(715,641)
Canadian statutory income tax rate (percent)	**27.00**	26.00
Expected income tax expense (recovery) at statutory rate	**45,373**	(186,067)
Increase (decrease) in tax expense (recovery) resulting from:		
Non-deductible costs	**1,356**	29,889
Unrecognized tax assets (liabilities)	**(48,354)**	166,863
Other	**1,625**	2,695
Change in statutory rate	**-**	(13,380)
Deferred income tax expense (recovery)	**-**	-

Effective July 1, 2015, the Alberta provincial tax rate changed from 10.0 percent to 12.0 percent. The rate change resulted in an additional $13.4 million of unrecognized deferred income tax assets.

10. Income Taxes (continued)

Deferred income tax assets and liabilities were not recognized on the following deductible and taxable temporary differences for the years ended December 31:

	2016	2015
Unrecognized deferred tax liabilities		
PP&E and E&E assets, net of site restoration provision and SR&ED	**4,749**	-
	4,749	-
Unrecognized deferred tax assets		
PP&E and E&E assets, net of site restoration provision and SR&ED	**-**	242,810
Non-capital losses	**796,723**	728,136
Debt issuance costs	**1,131**	1,198
Share issuance costs	**148**	197
	798,002	972,341
Net unrecognized deferred tax assets	**793,253**	972,341

The net deferred income tax assets have not been recognized in respect of these items as it is not probable that future taxable profits will be available against which the benefits can be utilized.

At December 31, 2016, the Company had non-capital losses of $796.7 million which begin to expire in 2024.

11. Continuing Notes and Payment-in-Kind Notes

As at	December 31 2016	December 31 2015
Continuing notes		
Current	**2,409**	-
Non-current	**24,679**	21,806
	27,088	21,806
Payment-in-kind notes		
Current	**5,083**	-
Non-current	**-**	34
	5,083	34
	32,171	21,840

The principal amount of the Continuing Notes outstanding at December 31, 2016 is $33.5 million ($33.5 million at December 31, 2015). The Continuing Notes are carried at their amortized cost of $27.1 million ($21.8 million at December 31, 2015) on the consolidated statements of financial position. The difference between the amortized cost and the principal balance of the Continuing Notes will be recorded as a finance expense over the period until the maturity of the Continuing Notes.

The principal amount of the PIK Notes outstanding at December 31, 2016 is $5.1 million ($34 thousand at December 31, 2015). The PIK Notes issued are in lieu of cash payments of interest and reimbursable costs of the Noteholder.

At December 31, 2016, both the Continuing Notes and PIK Notes were due on March 20, 2018 and bore an interest rate of 13.5 percent per annum. Effective March 20, 2017, certain terms of the Indenture were amended such that the maturity date of the Continuing Notes and PIK Notes was extended by three years to March 20, 2021 and the annual interest rate was reduced to 12.5 percent prospectively.

The Continuing Notes and PIK Notes are not subject to financial and operational covenants under the Indenture but there exist exceptions and qualifications limiting certain of the Company's abilities to, among other things: incur additional indebtedness; create or permit liens to exist; create or permit to exist restrictions on the ability to make certain payments and distributions; make certain dispositions and transfers of assets; and initiate amalgamations, mergers or consolidations.

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

As a result of the Court approval of the Settlement Agreement on August 5, 2015, the terms of the Initial Notes and PIK Notes under the Indenture were substantially modified as further described in notes 1 and 12 to the audited consolidated financial statements as at and for the year ended December 31, 2015.

The substantial modification of the terms resulted in the application of extinguishment accounting causing the derecognition of the existing notes, and recognition at fair value of the liability and equity components of the Amended Notes, Consent Fee Warrants and other warrants contemplated under the Settlement Agreement, with the difference being recognized as the loss on substantial modification of notes of $118.4 million on the consolidated statement of net loss and comprehensive loss for the year ended December 31, 2015.

On June 22, 2016, certain events contemplated under the Settlement Agreement concluded thereby obligating the Company to pay $6.1 million to the Noteholder. On August 31, 2016, net proceeds of $1.4 million of certain receivables described in the Settlement Agreement were received by the Company and designated as payable to the Noteholder. Payment of each amount is due at the Noteholder's discretion and, when paid, will be first applied to any principal outstanding under the PIK Notes and then any remaining balance directed to a partial repayment of principal outstanding under the Continuing Notes.

12. Credit Facility

Laricina has a demand credit facility of $10.0 million ($10.0 million at December 31, 2015) with a major Canadian chartered bank which is secured by an equivalent cash deposit which has been classified as restricted cash on the consolidated statements of financial position. Amounts drawn can take the form of prime rate-based loans, bankers' acceptances, LIBOR loans or letters of credit and will bear interest at the prime rate, bankers' acceptances rates or at LIBOR plus a spread above the reference rate between 1.0 percent and 2.0 percent per annum. As at December 31, 2016, the Company had issued letters of credit totalling $8.8 million ($6.3 million at December 31, 2015) under this credit facility and no cash amount had been drawn.

Subsequent to December 31, 2016, the Company issued an amendment to an existing letter of credit to reduce the amount by $0.7 million. As at April 21, 2017, the Company had issued letters of credit totaling $8.1 million.

13. Share Capital

Authorized

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value, issuable in series

Issued

	Number of shares (thousands)	Amount
Common Shares		
Balance as at December 31, 2014	69,732	1,342,679
Performance share units exercised	391	8,688
Issuance of shares	505,960	60,715
Share issuance costs	-	(247)
Balance as at December 31, 2015	576,083	1,411,835
Performance share units exercised	253	3,988
Balance as at December 31, 2016	**576,336**	**1,415,823**

On November 30, 2015, the Company received proceeds of $0.7 million related to a *pro* rata equity private placement to Laricina's shareholders contemplated under the Settlement Transaction which resulted in approximately 6.0 million common shares being issued.

Also on this date, $60.0 million of the Notes were converted to 500.0 million common shares pursuant to the terms of the Settlement Transaction. Both equity issuances were priced at $0.12 per common share (see notes 1 and 12 to the audited consolidated financial statements as at and for the year ended December 31, 2015).

Stock option plan

The Company has a stock option plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of options. The exercise price and vesting period of stock options granted is determined by the Board of Directors at the time of grant, and for each stock option exercised, the holder will receive one common share.

There were no grants of options issued or exercised during the years ended December 31, 2016 and 2015.

	2016			2015		
	Number of options (thousands)		Weighted Average Exercise Price	Number of options (thousands)		Weighted Average Exercise Price
Outstanding, beginning of year	729	$	26.60	1,642	$	28.12
Forfeited	(75)		27.48	(725)		28.51
Expired	(4)		32.50	(188)		32.50
Outstanding, end of year	**650**	**$**	**26.47**	**729**	**$**	**26.60**
Exercisable, end of year	**650**	**$**	**26.47**	**543**	**$**	**27.06**

The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the board of directors on February 5, 2016 was deemed a change of control under the provisions of the stock option plan. As a result of both these events, accelerated vesting of all unvested stock options occurred on February 5, 2016 and, as such, all stock options are exercisable. Outstanding and exercisable options as at December 31, 2016:

Exercise price ($/option)	**Number of options** (thousands)	**Weighted average remaining contractual life** (years)	**Weighted average exercise price** ($/option)
0.00 – 14.99	45	4.5	10.00
15.00 – 19.99	16	4.0	15.00
20.00 – 24.99	184	0.2	20.00
25.00 – 29.99	111	3.1	28.50
30.00 – 34.99	164	2.2	31.25
35.00 – 39.99	130	1.2	35.03
	650	**1.8**	**26.47**

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

For the years ended December 31	**2016**	2015
General and administrative expense (recovery)		
Share-based payments	**594**	1,535
Share-based forfeitures	**-**	(2,764)
Reversal of option expiries	**-**	2,523
	594	1,294
Exploration and evaluation assets		
Share-based forfeitures	**-**	921
Reversal of option expiries	**-**	(1,680)
	-	(759)
Net compensation expense	**594**	535

The reversal of option expiries related to a net compensation cost incurred in 2015 to reverse the net compensation cost recovery recorded in 2014 for expired options.

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 (**PSU**s). PSUs have an exercise price of $0.01 per PSU and vest on dates determined by the Board of Directors at the time of grant. For each PSU exercised, the holder will receive one common share.

There were no grants of PSUs issued during the years ended December 31, 2016 and 2015.

13. Share Capital (continued)

	2016			2015		
	Number of PSUs (thousands)		Weighted Average Exercise Price	Number of PSUs (thousands)		Weighted Average Exercise Price
Outstanding, beginning of year	503	$	0.01	1,658	$	0.01
Forfeited	(186)		0.01	(763)		0.01
Expired	(7)		0.01	(1)		0.01
Exercised	(253)		0.01	(391)		0.01
Outstanding, end of year	**57**	**$**	**0.01**	**503**	**$**	**0.01**
Exercisable, end of year	**57**	**$**	**0.01**	**238**	**$**	**0.01**

The recapitalization of the Company on November 30, 2015 in combination with the reconstitution of the board of directors on February 5, 2016 was deemed a change of control under the provisions of the PSU plan. As a result of both these events, accelerated vesting of all unvested PSUs occurred on February 5, 2016 and, as such, all PSUs are exercisable.

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

For the years ended December 31	**2016**	2015
General and administrative expense (recovery)		
Share-based payments	**1,552**	3,029
Share-based forfeitures	**-**	(6,810)
	1,552	(3,781)
Exploration and evaluation assets		
Share-based forfeitures	**-**	2,074
Net compensation expense (recovery)	**1,552**	(1,707)

Share appreciation rights

The Company has a SARs plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of SARs providing for cash payments equal to the excess of the market price of the common shares over the exercise price of the right. The vesting period of the SARs is two years.

There were no SARs grants issued during the years ended December 31, 2016 and 2015 and all SARs grants outstanding expired in 2015. A compensation recovery of $0.2 million was recognized for the year ended December 31, 2015.

Warrants

In conjunction with the completion of the Settlement Transaction on November 30, 2015, the then existing 3.8 million warrants issued in March 2014 and held by the Noteholder were surrendered and cancelled and the Company issued 28.8 million warrants (**Consent Fee Warrants**) exercisable in the aggregate for that number of common shares that were equivalent to 5.0 percent of the common shares then outstanding, each such warrant having an exercise price of $0.25 per warrant with an expiry date of March 20, 2018 and vested immediately upon issue. For each warrant exercised, the Noteholder will receive one common share.

These Consent Fee Warrants are liability-classified due to the anti-dilution provisions contained in the warrant certificate and the number of warrants and warrant exercise price being subject to variability. The fair value of the Consent Fee Warrants is measured at the end of each reporting period using the Black-Scholes option pricing model which is based on significant assumptions and is dependent on an estimate of the fair value of the Company's share price at the respective measurement date. Fair value measurements are classified as one of three levels which are described in note 3 of the annual financial statements. The fair value of the Consent Fee Warrants is classified as a level 3 measure under the fair value hierarchy.

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

A finance expense recovery of $2.9 million was recorded to reflect the change in fair value of the Consent Fee Warrants for the year ended December 31, 2016. For the corresponding period in 2015, a finance expense recovery of $8.6 million was recorded to reflect the change in fair value of the warrants contemplated under the Settlement Agreement.

14. Other Income

Other income for the years ended December 31 is comprised of the following:

	2016	2015
Revenue from third-party road use	**5,219**	7,857
Revenue from third-party camp use	**2,546**	781
Net gain on disposition of assets	**84**	5
Other	**7**	18
	7,856	8,661

15. Operating Expense

During the year ended December 31, 2015, the Company received $5.1 million of insurance proceeds, net of deductions, compensating the Company for certain costs incurred and losses sustained in relation to a third-party natural gas pipeline break at the Germain CDP in the fourth quarter of 2013. These payments were reflected as an offset to operating expenses.

15. Operating Expense (continued)

Of these insurance proceeds, $3.1 million was received by the Company after Court approval of the Settlement Agreement and these funds were remitted to the Noteholder in accordance with the terms of the Settlement Agreement.

16. Personnel Expense

The aggregate payroll expenses of employees and executive officers for the years ended December 31 are as follows:

	2016	2015
General and administrative expense (recovery)		
Wages and salaries	**4,534**	16,474
Benefits and other personnel costs	**264**	(304)
Provision for executive employment termination (note 17)	**2,150**	-
Share-based payments	**2,146**	(2,488)
	9,094	13,682
Operating expense (recovery)		
Wages and salaries	**(139)**	6,952
Benefits and other personnel costs	**6**	(82)
SARs compensation costs	**-**	(241)
	(133)	6,629
	8,961	20,311

The personnel expense recovery recorded in operating expense for the year ended December 31, 2016 was largely due to the cash refund received on October 28, 2016 related to the approved 2012 and 2013 SR&ED tax credit claims of which $0.4 million pertained to recovery of wages and salaries.

Personnel expenses directly related to E&E activities were capitalized and included in E&E assets until March 1, 2015 at which time the Saleski Phase 1 project was deferred.

17. Executive Compensation

In addition to salaries, the Company provides non-cash benefits to executive officers through participation in the Company's stock option and PSU plans. Share-based payments represent the amortization of compensation costs associated with grants of stock options and PSUs to executive officers as recorded in the financial statements.

Executive officer compensation costs for the years ended December 31 are comprised of the following, and are included within the amounts disclosed in note 16:

	2016	2015
Salaries	**1,208**	2,438
Benefits and other personnel costs	**47**	80
Provision for executive employment termination	**2,150**	-
Share-based payments	**1,071**	1,200
	4,476	3,718

The completion of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements.

The executive officers so affected have the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. The maximum liability to which the Company is exposed in this regard is $2.2 million and a provision has been recorded at December 31, 2016. On March 30, 2017, those executive officers tendered their notice to exercise their rights and will be leaving the Company effective April 30, 2017, shortly after which the entitlements will be settled.

18. Contract Cancellation Costs

In the second quarter of 2016, the Alberta Electric System Operator denied ATCO Electric Ltd. (**ATCO Electric**), as transmission facilities owner and on behalf of Laricina as operator of the Saleski Phase 1 project, the request to extend the power permit and license approval in-service date beyond July 1, 2016 which was originally granted in April 2013 for a new point-of-delivery power substation and transmission line (the **Saleski Transmission Project**), and hence has cancelled the Saleski Transmission Project. Due to the denial, Laricina and its joint venture partner were contractually obligated to reimburse $4.5 million of costs ATCO Electric incurred in respect of the Saleski Transmission Project. As a result, the Company has recognized its portion of the costs, $2.7 million, consisting of regulatory, design engineering, material and labour charges that had been accumulated by ATCO Electric since initiating the Saleski Transmission Project in 2011.

19. Finance Expense

Finance expenses (recoveries) for the periods are comprised as follows:

For the years ended December 31	**2016**	2015
Interest on Continuing Notes and PIK Notes	**4,824**	17,436
Accretion of site restoration obligation (note 9)	**970**	1,029
Accretion of amortized cost of Continuing Notes (note 11)	**5,282**	6,608
Re-measurement of warrants (note 13)	**2,877**	(8,600)
Provision for the acceleration payment	**-**	(9,741)
	13,953	6,732

20. Earnings (Loss) per Share

Basic earnings (loss) per share

The basic earnings per share for the year ended December 31, 2016 was $0.29 compared to a basic loss per share of $6.34 for the year ended December 31, 2015.

20. Earnings (Loss) per Share (continued)

The calculation of basic earnings (loss) per share was based on the income attributable to common shareholders of $168.0 million in 2016 compared to a loss attributable to common shareholders of $715.6 million in 2015, and the weighted-average number of common shares outstanding during the years, calculated as follows:

(thousands)	**2016**	2015
Issued common shares at beginning of period	**576,083**	69,732
Effect of performance share units exercised	**180**	132
Effect of common shares issued during year	**-**	42,972
Weighted-average common shares outstanding (basic)	**576,263**	112,836

Diluted earnings (loss) per share

The diluted earnings per share for the year ended December 31, 2016 was $0.29 compared to a diluted loss per share of $6.34 for the year ended December 31, 2015.

The share options were excluded in the computation of weighted average number of diluted shares outstanding for the year ended December 31, 2016 because the deemed average price of the Company's shares during the year was lower than the exercise price of these dilutive securities and the effect of inclusion would be anti-dilutive.

The calculation of diluted loss per share for the year ended December 31, 2015 does not include stock options, PSUs or warrants as the effect would be anti-dilutive.

21. 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 discusses 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. The 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.

Credit risk

Credit risk is the risk that the counterparty to a financial asset will default, resulting in the Company incurring a financial loss. It 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 operation partners in the oil and natural gas industry and is subject to normal industry credit risk and resolution processes under the joint venture agreements. Joint operation receivables are typically collected within one month of the joint interest bill being issued. Historically, Laricina has not experienced any collection issues with its trade and other receivables. There was no provision recorded at December 31, 2016. However the Company did record a provision of $1.3 million at December 31, 2015 for those accounts for which recoverability was uncertain.

The carrying amount of financial assets at December 31 represents the maximum credit exposure as follows:

	2016	2015
Cash	**22,418**	29,631
Restricted cash	**10,000**	10,000
Short-term investments	**50**	50
Trade and other receivables	**3,679**	8,196
	36,147	47,877

The maximum exposure to credit risk for trade and other receivables by customer at December 31 was as follows:

	2016	2015
Joint operation partners	**-**	4,249
Other	**3,679**	5,247
	3,679	9,496
Provision for doubtful accounts	**-**	(1,300)
	3,679	8,196

The Company's most significant receivable at December 31, 2016 was with one third-party customer for $2.4 million related to the use of the Chip Lake access road. The Company's most significant receivable at December 31, 2015 was $4.2 million with a joint operation partner.

There were no significant outstanding receivable amounts which were aged greater than 90 days as at December 31, 2016 and $2.5 million of outstanding trade and other receivables was collected subsequent to December 31, 2016.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial liabilities. 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 its reputation. Laricina prepares annual capital and operating expenditure budgets that are monitored on a regular basis and updated as necessary. As discussed in note 2, there are material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

As at December 31, 2016, cash was held in a fully-liquid, interest-bearing operating account and Laricina had $1.2 million available in the bank credit facility to manage its expenditures, if necessary. The Company's liabilities at December 31 with contractual maturities of less than one year are as follows:

	2016	2015
Trade and other payables	**6,513**	5,519
Current portion of continuing notes and payment-in-kind notes	**7,492**	-
	14,005	5,519

21. Financial Risk Management (continued)

On January 28, 2016, Laricina was granted a final court order from the Court to exit from protection under the CCAA, concluding the stay of proceeding against the Company and its subsidiaries effective upon the filing of a certificate by the Monitor which occurred February 1, 2016. The Company has paid in full all accounts in respect of its CCAA proceedings. A condition of the final court order required Laricina to set aside a reserve of $1.8 million against which the payment of the remaining $0.8 million unpaid proven claims approved under the Claims Process would be drawn and an outstanding disputed claim of $1.0 million could be drawn. As at the end of 2016, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve fund and, accordingly, the $0.4 million of funds remaining have been released and reclassified to cash.

Subsequent to December 31, 2016, the Company issued an amendment to an existing letter of credit to reduce the amount by $0.7 million thereby increasing the bank credit facility balance available to $1.9 million. In addition, certain terms of the Indenture were amended such that the maturity of the Continuing Notes and PIK Notes was extended by three years and bear an interest rate of 12.5 percent per annum effective March 20, 2017.

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 Laricina's control. The Company closely monitors commodity prices to determine the appropriate course of action. Prices for oil are determined in global markets and generally denominated in United States (**US**) dollars. The exchange rate effect cannot be quantified but generally an increase in the Canadian dollar versus the US dollar reduces the price received for oil.

Capital management

The Company's objectives when managing capital are to safeguard its ability to pursue the 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 shareholders' equity, the Continuing Notes and working capital inclusive of the Consent Fee Warrants. The Company does not have material operations and the primary assets consist of oil sands properties for development. Accordingly, the Company may adjust capital expenditures, issue new shares, acquire or dispose of assets, enter into joint operation arrangements or issue new debt to manage the capital structure.

The Company is subject to externally imposed capital restrictions under the terms of the Continuing Notes as discussed in note 11. The credit facility referred to in note 12 is secured by an equivalent cash deposit.

22. Supplemental Cash Flow Information

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

As at December 31	2016	2015
Operating activities		
Trade and other receivables	**1,623**	1,935
Prepaid expenses and deposits	**995**	(432)
Inventories	**-**	825
Trade and other payables	**1,034**	(4,744)
Net change in non-cash operating working capital	**3,652**	(2,416)
Investing activities		
Trade and other receivables	**2,895**	(1,832)
Prepaid expenses and deposits	**(72)**	119
Inventories	**-**	78
Trade and other payables	**(24)**	(8,393)
Net change in non-cash investing working capital	**2,799**	(10,028)
Financing activities		
Trade and other payables	**(16)**	15
Net change in non-cash financing working capital	**(16)**	15

The following table discloses the cash interest paid and cash interest received for the years ended December 31:

	2016	2015
Interest paid	**-**	16,971
Interest received	**420**	4,073

23. Contractual Obligations

The Company had the following cash-settled contractual obligations at December 31, 2016:

	2017	2018	2019	2020	2021	Thereafter	Total
Repayment of Notes(1)(2)	2,409	31,085	-	-	-	-	33,494
Repayment of PIK Notes(1)(2)	5,083	-	-	-	-	-	5,083
Interest payments on Notes(1)(2)	5,540	1,064	-	-	-	-	6,604
Operating leases	225	20	-	-	-	-	245
Other contractual obligations	670	711	1,071	1,835	1,694	13,407	19,388
Total contractual obligations	**13,927**	**32,880**	**1,071**	**1,835**	**1,694**	**13,407**	**64,814**

(1) If the principal balances of the Continuing Notes and the PIK Notes changes before the maturity date or the timing of the notes repayment is altered, the interest payable will be affected.

(2) At the Company's option, the interest on the Continuing Notes and the PIK Notes and the reimbursement of the reasonable expenses of the Noteholder may be paid in cash or by way of further PIK Notes.

Other contractual obligations include electricity purchases, natural gas purchases and other obligations.

Subsequent to December 31, 2016, certain terms of the Indenture were amended such that the Continuing Notes and PIK Notes now mature on March 20, 2021 and bear an interest rate of 12.5 percent per annum effective March 20, 2017.

Corporate Information

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S. Barry Jackson
Chairman, TransCanada Corporation

Jennifer K. Kennedy
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