LARICINA
ENERGY LTD.

2018 First Quarter Interim Report

Contents

Forward-Looking Statements

This interim 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 10 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**) for the three-month period ended March 31, 2018 was approved by the Company's Board of Directors on May 23, 2018. This MD&A should be read in conjunction with the unaudited condensed interim financial statements and accompanying notes as at and for the three months ended March 31, 2018 and March 31, 2017 (the **interim financial statements**), and the audited consolidated financial statements as at and for the year ended December 31, 2017 (the **annual financial statements**) and MD&A contained in the Company's annual report for 2017. The financial information contained in this MD&A is derived from the interim financial statements prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board and is presented in thousands of Canadian dollars, except where otherwise indicated.

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

To preserve capital and protect the long-term value of the assets, the Company deferred further development of Saleski Phase 1 in the first quarter of 2015 and suspended operations at the Germain commercial demonstration project (**CDP**) and the Saleski pilot in the first and third quarters of 2015, respectively. 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.

Significant Events for the Three Months Ended March 31, 2018

Effective January 1, 2018, the Company completed a short-form vertical amalgamation of Laricina and its two wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc. Consequently, there are no longer any subsidiaries of Laricina.

In mid-February 2018, the Company initiated a formal process to explore strategic options and engaged a financial advisor to advise the Company in connection with this broad and comprehensive review and analysis of strategic alternatives.

Significant Events Occurring Subsequent to March 31, 2018

On April 16, 2018, Laricina disposed of rig mats to a third party for net proceeds of $0.5 million. These proceeds were remitted to the Company's sole lender (the **Noteholder**) on April 24, 2018, in accordance with the Noteholder's consent to dispose of assets, as a partial repayment of the non-current portion of the principal outstanding under the payment-in-kind notes (**PIK Notes**).

Summary Quarterly Financial Information

For the three months ended March 31	**2018**	2017
Total assets	**655,824**	670,254
Working capital	**25,137**	24,278
Finance and other income	**4,553**	7,345
Net loss and comprehensive loss[(1)]	**2,802**	1,698

(1) The basic and diluted loss per share was a nominal amount for the three-month periods ended March 31, 2018 and 2017.

Total assets

Total assets at March 31, 2018 were lower than total assets at March 31, 2017 by $14.4 million primarily as a result of the following:

- a reduction in the long-term assets caused by a $4.2 million downward revision in the site restoration assets and $4.4 million in associated depreciation and amortization recorded since March 31, 2017;
- the impact of certain payments made after March 31, 2017, the more significant being a $2.2 million provision relating to executive officer entitlements upon termination of employment and a deferred camp lease obligation of $0.8 million; and
- lower cash balances as a result of the Company funding its operating activities since March 31, 2017 and lower third-party road use revenue following the acquisition of a joint interest in the Chip Lakes Road by a former significant road customer effective May 31, 2017.

These reductions were partially offset by higher trade and other receivables at March 31, 2018 due to the timing of collection of third-party camp use revenues and a partial reimbursement from ATCO Electric Ltd. (**ATCO Electric**) of $1.4 million ($0.8 million net to Laricina) of contract cancellation costs originally incurred in the second quarter of 2016 related to the cancellation of a point-of-delivery power substation and transmission line project (the **Saleski Transmission Project**) by the Alberta Electric System Operator.

Working capital

Working capital as at March 31, 2018 was $0.9 million higher than working capital as at March 31, 2017 largely due to the aforementioned higher trade and other receivables, net proceeds of $3.2 million received from the disposition of a Once Through Steam Generator (**OTSG**) unit in the third quarter of 2017 and cash recoveries of $0.8 million in the fourth quarter of 2017 relating to the 2014 and 2015 Scientific Research and Experimental (**SR&ED**) tax credit claims. These working capital improvements were partially offset by the impact to third-party road use revenues subsequent to the Chip Lakes Road ownership change and the introduction of performance and retention bonus programs, both in the second quarter of 2017, and cash expended to fund the Company's operations since March 31, 2017.

Finance and other income

Finance income and other income fluctuate each period as a result of the average funds held on deposit and their associated interest rates, and variable third-party use of the camps and roads, respectively.

Other income for the three months ended March 31, 2018 decreased compared to the corresponding period in 2017 due to lower revenue from third-party use of the camps and from the Chip Lakes Road following the acquisition, in the second quarter of 2017, of an interest in the road by the former largest third-party customer.

Finance income modestly increased in the first quarter of 2018 compared to the corresponding period in 2017 largely due to a higher interest rate realized.

Details of these changes are discussed in the Results of Operations and Summary Corporate Results sections of this MD&A.

Net loss and comprehensive loss

For the three-month period ended March 31, 2018, the higher net loss and comprehensive loss relative to the corresponding period in 2017 was primarily the result of the net effect of lower third-party camp and road use revenues and associated operating costs. Partially offsetting these amounts in the first quarter of 2018 was an additional partial reimbursement of contract cancellation costs related to the Saleski Transmission Project, and lower finance expense, depreciation and amortization.

Further discussion of the net loss and comprehensive loss for each of these periods is described in the Summary Corporate Results section of this MD&A.

Results of Operations

For the three months ended March 31	**2018**	2017
Other income	**4,435**	7,273
Operating expenses	**3,498**	4,381

Other income

Other income consists of fees charged to third parties for the use of Laricina's camp facilities and roads. For the three-month period ended March 31, 2018 compared to the same period in 2017, other income decreased by $2.8 million due to a reduction in third-party use of the camps and roads, the latter being a function of a former significant third-party customer acquiring an interest in the Chip Lakes Road effective May 31, 2017. Refer to note 11 to the interim financial statements for a detailed composition of other income.

Operating expenses

Operating expenses consist of the costs associated with the use of Laricina's camps by third parties, maintenance of the roads and costs related to securing and maintaining the integrity of the assets at the Germain CDP and Saleski pilot while operations remain suspended.

Operating costs in the first quarter of 2018 were $0.9 million lower than the corresponding period of 2017 due to a reduction of third-party camp costs stemming from the comparatively lower demand for camp use. In addition, operating costs decreased in relation to the Chip Lakes Road due to the change in partner allocations following the aforementioned ownership change in the second quarter of 2017.

Summary Corporate Results

For the three months ended March 31	2018	2017
General and administrative expenses	**1,310**	1,342
Contract cancellation costs (recovery)	**(144)**	-
Depreciation and amortization	**1,060**	1,183
Finance income	**118**	72
Finance expense	**1,631**	2,137
Net loss and comprehensive loss(1)	**2,802**	1,698

(1) The basic and diluted loss per share was a nominal amount for both three-month periods ended March 31, 2018 and 2017.

General and administrative expenses

For the three-month period ended March 31, 2018, general and administrative expenses consisted of essential services only and reflected 8 employees compared to 16 employees in the first quarter of 2017. The nominal decrease in general and administrative expenses was due to lower salaries and benefits because of the smaller employee base in 2018. This was almost fully offset by higher professional fees related to financial advisory and legal costs associated with the Company's strategic alternatives process initiated in the first quarter of 2018 and accrued costs of performance and retention bonus programs implemented in May 2017.

Contract cancellation costs (recovery)

In the second quarter of 2016, the Alberta Electric System Operator denied 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 the Saleski Transmission Project, thereby cancelling the Saleski Transmission Project. Due to the denial, Laricina and its joint operations partner were contractually obligated to reimburse $4.5 million for costs ATCO Electric incurred in respect of the Saleski Transmission Project. As a result, the Company 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.

In the interim, ATCO Electric has sought to return materials from the Saleski Transmission Project and/or transfer them to other projects. During the third quarter of 2017, ATCO Electric indicated that they would reimburse $0.7 million to Laricina, representing the Company's share of amounts recovered less any applicable charges. In the first quarter of 2018, ATCO Electric communicated that an additional $0.1 million net refund to Laricina was forthcoming. The net cash reimbursement of $0.8 million was received on April 27, 2018.

Depreciation and amortization

Depreciation and amortization in 2018 and 2017 consists of the continuing depreciation associated with certain exploration and evaluation (**E&E**) assets and property, plant and equipment (**PP&E**) and amortization of certain intangible assets.

Finance income

Finance income in each of the first quarters of 2018 and 2017 primarily consisted of interest earned on cash and restricted cash. Finance income for the three-month period ended March 31, 2018 modestly increased relative to the corresponding period in 2017 due to a higher interest rate realized in the first quarter of 2018.

Finance expense

Finance expense for the three-month periods ended March 31, 2018 and March 31, 2017 consisted of interest incurred on the senior secured notes (the **Continuing Notes**) and PIK notes (collectively, the **Notes**), accretion for the site restoration provision, changes in fair value upon re-measurement of the liability on the 28.8 million warrants (**Consent Fee Warrants**) issued to the Noteholder, and accretion associated with the amortized cost of the Continuing Notes. Refer to note 13 to the interim financial statements for a detailed composition of finance expense.

Finance expense was $0.5 million lower in the first quarter of 2018 compared to the first quarter of 2017 primarily due to lower accretion associated with the amortized cost of the Continuing Notes, partially offset by changes in fair value upon re-measurement of the Consent Fee Warrants' liability.

Net loss and comprehensive loss

The net loss and comprehensive loss for the three-month period ended March 31, 2018 was $2.8 million compared to $1.7 million for the three months ended March 31, 2017. Net loss and comprehensive loss increased by $1.1 million due to the net effect of lower third-party camp and road use revenues and associated operating costs and a lower recovery upon re-measurement of the Consent Fee Warrants fair value. Partially offsetting these amounts in the first quarter of 2018 was an additional partial reimbursement of contract cancellation costs related to the Saleski Transmission Project, lower accretion associated with the amortized cost of the Continuing Notes and lower depreciation and amortization.

Capital Investment

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

Cash capital expenditures

There have been no cash capital expenditures since the third quarter of 2015 following the suspension of operations at both facilities and the deferral of further development of Saleski Phase 1.

Non-cash capital expenditures and provisions

Non-cash expenditures and provisions include non-cash capitalized general and administrative costs, non-cash gains or losses on the disposal of assets, non-cash transfers to operations and changes in provision for site restoration.

For the three months ended March 31, 2018, the non-cash capital expenditures consisted of $0.4 million due to the change in rate associated with the provision for future site restoration. Non-cash capital recovery of a nominal amount during the three months ended March 31, 2017 related to the transfer of capitalized inventory to operating expense for repairs and maintenance activities at the Germain CDP.

Intangible Assets

Intangible assets consist of payments made to a third party to expand the availability of power for the Company's future development projects at Germain. There have been no capital expenditures of an intangible nature in either of 2017 or the first quarter of 2018.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**
Working capital	**25,137**	25,267	27,017	24,142	24,278	22,659	25,961	30,386
Cash capital recovery	**-**	-	(3,341)	(132)	-	(158)	(292)	(62)
Finance and other income	**4,553**	1,120	466	3,276	7,345	1,655	1,921	982
Net income (loss) and comprehensive income (loss)	**(2,802)**	(4,483)	(3,354)	(3,107)	(1,698)	193,554	(7,410)	(8,754)
Earnings (loss) per share – Basic and diluted[1]	$ -	$ (0.01)	$ (0.01)	$ (0.01)	$ -	$ 0.34	$ (0.01)	$ (0.02)

(1) Quarterly per share amounts may not add to total year earnings (loss) per share due to rounding.

Working capital

Working capital has been relatively stable since the third quarter of 2016 other than the increase in the third quarter of 2017 which reflected the proceeds on disposition of the OTSG unit and the partial reimbursement of the Saleski Transmission Project cancellation costs. In the second and third quarters of 2016, a portion of the Continuing Notes and PIK Notes were reclassified from non-current liabilities to current liabilities as payment was due at the Noteholder's discretion.

The cash balance is decreasing over time in order to fund the Company's operations.

Cash capital recovery

During the third quarter of 2017, the Canada Revenue Agency (**CRA**) approved the 2015 SR&ED tax credit claim. As a result, $0.2 million of the $0.4 million refundable portion of the related Alberta tax credit claim was recorded as a cash capital recovery, reducing E&E assets accordingly. In addition, the Company completed the sale of the OTSG unit to a third party for net proceeds of $3.2 million. During the second quarter of 2017, the CRA approved the 2014 SR&ED tax credit claim. As a result, $0.1 million of the $0.4 million refundable portion of the related Alberta tax credit claim was recorded as a cash capital recovery, reducing E&E assets accordingly.

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 Enhanced Solvent Extraction Incorporating Electromagnetic 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.

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

Finance and other income

Finance income moves in relation to the amount of average funds held on deposit throughout the period and their associated interest rate.

In the fourth quarter of 2017, finance income was slightly higher due to a stronger interest rate realized for the period and additional interest income received on the cash refund for the 2014 and 2015 SR&ED tax credit claims.

In the fourth quarter of 2016, interest income received on the cash refund for the 2012 and 2013 SR&ED tax credit claims contributed to an increase in that three-month period. There was a small increase in finance income in the second quarter of 2016 due to interest earned on overdue receivables.

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

Net income (loss) and comprehensive income (loss)

The net loss and comprehensive loss for the three months ended March 31, 2018 and 2017 are described in the Summary Corporate Results section of this MD&A.

Beginning late in the second quarter of 2017, the net loss and comprehensive loss has been affected by the May 31, 2017 change in joint ownership of the Chip Lakes Road, leading thereafter to decreased road use revenue, partially offset by lower associated operating costs. A partial reimbursement of $0.7 million of contract cancellation costs related to the Saleski Transmission Project in the third quarter of 2017 improved that period’s results.

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 for that period. The net losses sustained in each of the second and third quarters of 2016 were impacted by costs for which there were no corresponding amounts in 2017:

- Q2 2016: contract cancellation costs of $2.7 million incurred for the Saleski Transmission Project; and
- Q3 2016: a $0.9 million payment to defer, by two years, an increase in power load at the Germain CDP and a $0.6 million prospective adjustment to recognize the effect of depreciation calculation errors occurring in prior periods.

Liquidity and Capital Resources

As at March 31, 2018, Laricina had capital resources of $25.1 million.

Cash and restricted cash	28,456
Non-cash working capital	(3,319)
Capital resources available	**25,137**

The interim financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. If this assumption was not appropriate, adjustments to the interim financial statements may be necessary.

For the three-month period ended March 31, 2018, 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 position of $28.5 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 contractual obligations 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. Continued constraints on the availability of capital impacts Laricina's ability to source funding for future operating and investing activities. It is uncertain 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 and restricted cash

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 1.3 percent to 1.5 percent during the first three months of 2018. In addition, the Company held excess cash in a high-interest savings account with interest rates ranging from 1.5 percent to 1.8 percent over the three-month period ended March 31, 2018. 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 March 31, 2018 is $33.5 million. The Continuing Notes are carried at their amortized cost of $29.6 million on the condensed statements of financial position as at March 31, 2018. The difference between the Continuing Notes' amortized cost and principal balance will be accreted and 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 March 31, 2018 is $11.6 million of which $7.5 million of the PIK Notes are payable at the Noteholders' discretion and has been classified to current liabilities on the condensed statements of financial position as at March 31, 2018.

On April 24, 2018, a payment of $0.5 million relating to the proceeds of the rig mats disposition to a third party was made to the Noteholder, in accordance with the Noteholder's consent to dispose of assets, and applied to the principal outstanding under the non-current portion of the PIK Notes.

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. 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 $8.2 million under this credit facility. The letters of credit are issued to the Alberta Energy Regulator to secure the Company's licensee liability rating requirements as operator and to suppliers of utilities to support the development and reactivation of Saleski and Germain. The letters of credit of $3.0 million, $4.7 million, $0.1 million, $0.1 million, and $0.3 million are expected to be renewed on July 28, 2018, August 18, 2018, August 31, 2018, August 31, 2018, and December 5, 2018, respectively.

The Company's corporate credit card, for which the credit limit is $0.1 million, is also secured by this credit facility.

Contractual obligations

At May 23, 2018, the Company has the following cash-settled contractual obligations:

	2018	2019	2020	2021	2022	Thereafter	Total
Repayment of the Continuing Notes	-	-	-	33,493	-	-	33,493
Repayment of PIK Notes	-	7,492	-	3,672	-	-	11,164
Interest payments on the Notes(1)(2)	3,577	6,489	7,339	1,705	-	-	19,110
Operating leases	134	29	16	13	1	-	193
Other contractual obligations	346	703	1,717	1,591	1,645	15,556	21,558
Total contractual obligations	**4,057**	**14,713**	**9,072**	**40,474**	**1,646**	**15,556**	**85,518**

(1) If the principal balances of the Continuing Notes and the PIK Notes change 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, firm natural gas transportation costs, employee retention programs, and other obligations.

2018 Outlook

In mid-February 2018, the Company announced the engagement of a financial advisor and launched a broad and comprehensive review and analysis of strategic options. Parties have signed a confidentiality agreement and are reviewing the opportunity. The strategic alternatives may include, but are not limited to, a corporate sale, merger or other business combination, a sale of all or a portion of Laricina's assets, a royalty, a joint venture, strategic investment or other significant transaction. The Company has not set a definitive schedule to complete its identification, examination and consideration of strategic alternatives. It is not certain this review process will result in a transaction, or, if a transaction is undertaken, what terms, timing, conditions or approvals may be required to implement such a transaction.

Concurrent with this formal strategic review process, Laricina is continuing with a small complement of employees and third-party consultants under a base business plan which has been designed to preserve the integrity, value and optionality of the assets, manage financial capacity and maintain cost discipline.

Outstanding Share Data

At May 23, 2018, share capital consisted of the following:

(thousands)	
Common shares	576,330
Stock options	310
Performance share units	13
Total	**576,653**

Each stock option and performance share unit 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 interim financial statements have been prepared in accordance with IFRS applicable to the preparation of financial statements. A discussion of the Company's significant accounting policies and of the nature and basis of judgements, critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses are described in notes 2 and 3 of the Company's annual financial statements and in note 2 to the interim financial statements. The Company has applied these same judgments, accounting estimates, assumptions and policies consistently throughout all periods presented.

Risk Management

The current risk factors influencing the Company remain substantially unchanged from those detailed in the Risk Management section of the MD&A included in the Company's annual report for 2017.

Advisory on Forward-Looking Statements

This MD&A and interim 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 outlook for 2018 and its 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 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 May 23, 2018, there can be no assurance that such expectations will prove to be correct and, accordingly, that actual results will be consistent with the forward-looking statements. The risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this interim report include those outlined in the Risk Management section of the MD&A included in the Company’s annual report for 2017 and contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements in this MD&A and interim report, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. Unless required by law, the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements in this MD&A and interim report are expressly qualified by this advisory and disclaimer.

Condensed Statements of Financial Position

Unaudited

As at *(thousands of Canadian dollars)*	Note	**March 31 2018**	December 31 2017
Assets			
Current assets			
Cash	2	**18,456**	21,769
Restricted cash	2,9	**10,000**	10,000
Trade and other receivables	2	**7,059**	3,748
Prepaid expenses and deposits		**604**	487
		36,119	36,004
Non-current assets			
Exploration and evaluation assets	3	**547,804**	547,459
Property, plant and equipment	4	**62,831**	63,719
Intangible assets	5	**9,070**	9,226
		619,705	620,404
Total assets		**655,824**	656,408
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables	2,7	**3,490**	3,245
Current portion of continuing notes and payment-in-kind notes	2,8	**7,492**	7,492
		10,982	10,737
Non-current liabilities			
Continuing notes and payment-in-kind notes	2,8	**33,724**	32,031
Consent fee warrants	10	**-**	4,061
Site restoration provision	6	**42,924**	42,328
Total liabilities		**87,630**	89,157
Shareholders' equity			
Share capital	10	**1,415,808**	1,415,808
Contributed surplus		**174,587**	170,842
Deficit		**(1,022,201)**	(1,019,399)
Total shareholders' equity		**568,194**	567,251
Total liabilities and shareholders' equity		**655,824**	656,408

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

Contractual obligations (note 16)
Subsequent events (notes 3, 8, 12)

Condensed Statements of Net Loss and Comprehensive Loss

Unaudited

For the three months ended March 31 *(thousands of Canadian dollars)*	Note	**2018**	2017
Revenue			
Other income	2,11	**4,435**	7,273
		4,435	7,273
Expenses			
Operating		**3,498**	4,381
General and administrative		**1,310**	1,342
Contract cancellation costs (recovery)	12	**(144)**	-
Depreciation and amortization	3,4,5	**1,060**	1,183
		5,724	6,906
Net income (loss) from operating activities		**(1,289)**	367
Finance income		**118**	72
Finance expense	13	**(1,631)**	(2,137)
Net finance expense		**(1,513)**	(2,065)
Net loss and comprehensive loss		**(2,802)**	(1,698)
Loss per common share			
Basic and diluted	14	**$ -**	$ -

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

Condensed Statements of Changes in Equity

Unaudited

(thousands of Canadian dollars)	Note	**Share capital**	**Contributed surplus**	**Deficit**	**Total equity**
Balance as at December 31, 2016		1,415,823	170,827	(1,006,757)	579,893
Net loss and comprehensive loss		-	-	(1,698)	(1,698)
Cancellation of treasury shares	10	(15)	15	-	-
Balance as at March 31, 2017		1,415,808	170,842	(1,008,455)	578,195
Net loss and comprehensive loss		-	-	(10,944)	(10,944)
Balance as at December 31, 2017		1,415,808	170,842	(1,019,399)	567,251
Net loss and comprehensive loss		-	-	(2,802)	(2,802)
Expiration of Consent Fee Warrants	10	-	3,745	-	3,745
Balance as at March 31, 2018		**1,415,808**	**174,587**	**(1,022,201)**	**568,194**

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

Condensed Statements of Cash Flows

Unaudited

For the three months ended March 31 *(thousands of Canadian dollars)*	Note	**2018**	2017
Cash flows from (used in) operating activities			
Net loss and comprehensive loss		**(2,802)**	(1,698)
Adjustments for:			
Depreciation and amortization	3,4,5	**1,060**	1,183
Non-cash finance expense		**1,612**	2,134
Gain on disposal of property, plant and equipment	11	**(1)**	-
Transfer of capitalized inventory to operations	3	**-**	2
		(131)	1,621
Net change in non-cash operating working capital	15	**(3,177)**	(1,022)
Net cash from (used in) operating activities		**(3,308)**	599
Cash flows from (used in) investing activities			
Net change in non-cash investing working capital	15	**(5)**	25
Net cash from (used in) investing activities		**(5)**	25
Net increase (decrease) in cash		**(3,313)**	624
Cash, beginning of period		**21,769**	22,418
Cash, end of period		**18,456**	23,042

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

Notes to the Condensed Interim Financial Statements

As at March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017
Unaudited

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

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.

Effective January 1, 2018, the Company completed a short-form vertical amalgamation of Laricina and its two wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc. Consequently, there are no longer any subsidiaries 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.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements of the Company as at March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017 (the **interim financial statements**) have been prepared by management in accordance with International Accounting Standard (**IAS**) 34 *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2017 (the **annual financial statements**) which were prepared in accordance with the International Financial Reporting Standards (**IFRS**) and are included in the Company's annual report for 2017.

Certain comparative figures have been reclassified to comply with IFRS 15 adopted in the current period.

These interim financial statements were approved for release to shareholders by the Board of Directors on May 23, 2018.

Basis of presentation

These interim financial statements are prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. If this assumption were not appropriate, adjustments to these interim financial statements may be necessary.

For the three months ended March 31, 2018, 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 $28.5 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 Company's sole lender (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. Continued constraints on the availability of capital impacts Laricina's ability to source funding for future operating and investing activities. It is uncertain 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.

Functional and presentation currency

The interim financial statements are presented in Canadian dollars, the Company's functional currency.

Use of estimates and judgments

The nature and basis of judgements, critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in these interim financial statements are unchanged from those described in note 2 to the annual financial statements.

Basis of measurement

The interim financial statements were prepared on the historical cost basis except for the valuation of certain financial assets and financial liabilities discussed in the immediate section following.

Changes in significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company and its subsidiaries at December 31, 2017 in the annual financial statements except for the following accounting standards and/or amendments thereto:

IFRS 9, Financial Instruments

Effective January 1, 2018, Laricina retrospectively adopted IFRS 9, *Financial Instruments,* which replaces IAS 39, *Financial Instruments: Recognition and Measurement.* The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's annual financial statements for the year ended December 31, 2017.

2. Basis of Preparation (continued)

The adoption of IFRS 9 has resulted in classification changes of the Company's financial assets and financial liabilities but there are no measurement changes as summarized in the following table:

	Under IAS 39		Under IFRS 9	
Financial assets	*Classification*	*Measurement*	*Classification*	*Measurement*
Cash	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Restricted cash	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost

	Under IAS 39		Under IFRS 9	
Financial liabilities	*Classification*	*Measurement*	*Classification*	*Measurement*
Trade and other payables	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Continuing Notes and PIK Notes	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

Laricina measures its financial assets and financial liabilities at fair value upon initial recognition. Subsequent measurement is dependent on the financial instrument's classification. Cash, restricted cash, trade and other receivables and trade and other payables are classified and measured at amortized cost using the effective interest method. The carrying values of Laricina's cash, restricted cash, trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The Continuing Notes and PIK Notes are carried at their amortized cost which is their fair value. There have been no changes in the period to the assumptions underlying this fair value.

An incurred loss model under IAS 39 was replaced with an expected credit loss model which requires the Company to review the impairment of its trade and other receivables at each reporting period to determine its loss allowance for expected future credit losses. Laricina records an allowance for doubtful accounts if an account is determined to be uncollectible. Any provisions recorded by the Company are reviewed regularly to determine if any of the balances provided for should be written off. The Company assesses its provisions on an individual customer account basis rather than a loss allowance on all outstanding trade and other receivables.

IFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers*, and applied the cumulative effect adjustment method on transition. The adoption of IFRS 15 did not result in any adjustments to the opening retained earnings of these condensed interim financial statements of the Company as at March 31, 2018 and did not impact the timing or measurement of revenue to what was previously recorded under IAS 18, *Revenue*. The adoption of IFRS 15 contains additional disclosure requirements and these are included in notes 7 and 11 to the interim financial statements.

As Laricina's operations have been suspended since 2015, the majority of the revenue generated is from contracts with customers for the use of the Company's camps, roads and communication towers. There are no contracts where the period between transfer of the goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. The future benefit of costs associated with the provision of goods and services endures for less than one year from the point in time incurred and consequently these expenditures are expensed rather than capitalized.

In relation to third-party use of the camps, the Company satisfies its performance obligations through the provision of camp services on a per man-day basis in accordance with the contractual terms. A man-day consists of one night's lodging and the maximum daily provision of three meals. A commitment of man-days for a specific period of time is stipulated in the contract. If the third-party customer is unable to meet the man-day commitment, the Company may be entitled to shortfall commitment revenue under the terms of the contract. The shortfall commitment revenue is calculated by multiplying the difference between the man-day commitment and the actual man-days realized by the rate prescribed in the contract. The Company recognizes the shortfall commitment revenue at the end of the commitment period. At the inception of the contract, an estimate for shortfall commitment revenue is not recognized as the expectation by the Company is that the customer will meet their man-day commitment in the period specified.

In relation to third-party use of the roads, the performance obligations are considered satisfied when the customer accesses and uses the road. Initial consideration fees are remitted to Laricina prior to gaining entry to the road and are recorded as a contract liability until the customer physically accesses the road on or after the effective date specified in the contract. Once access begins, the initial consideration fees are recognized as revenue on a straight-line basis over the access period. As the customer uses the road, maintenance fees are also paid to Laricina on a monthly or quarterly basis and these funds are applied to road maintenance.

IFRS 2, Classification and Measurement of Share-based Payment Transactions

The Company adopted the amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions,* effective January 1, 2018 and these amendments had no impact on the Company's interim financial statements and related disclosures.

New accounting standards and interpretations not yet adopted

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

In January 2016, the International Accounting Standards Board 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. IFRS 16 will be adopted by Laricina on January 1, 2019. The Company is currently assessing and evaluating the impact of the standard on the annual financial statements.

There have been no additional amendments to accounting standards issued during the three months ended March 31, 2018 that are applicable to the Company.

Determination of fair values

Certain accounting policies and disclosures require the Company to determine fair value for purposes of measurement or disclosure as required under IFRS 13, *Fair Value Measurement*. Fair values have been determined using the methods outlined below using the applicable three-level 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.

2. Basis of Preparation (continued)

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 three months ended March 31, 2018 and the year ended December 31, 2017.

3. Exploration and Evaluation Assets

Exploration and evaluation assets (**E&E**) 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 period. There were no amounts transferred to property, plant and equipment during 2017 and the first three months of 2018.

Cost	
Balance as at December 31, 2016	1,123,400
Disposals	(3,722)
Change in site restoration provision (note 6)	(4,513)
Recoveries	(286)
Transfer of capitalized inventory to operations	(2)
Balance as at December 31, 2017	1,114,877
Change in site restoration provision (note 6)	361
Balance as at March 31, 2018	**1,115,238**
Accumulated depreciation	
Balance as at December 31, 2016	(567,896)
Depreciation	(64)
Disposals	542
Balance as at December 31, 2017	(567,418)
Depreciation	(16)
Balance as at March 31, 2018	**(567,434)**
Carrying amounts	
As at December 31, 2017	547,459
As at March 31, 2018	**547,804**

Subsequent to the first quarter ended March 31, 2018, Laricina disposed of rig mats to a third party for net disposition proceeds of $0.5 million resulting in a loss on disposition of $0.3 million.

4. Property, Plant and Equipment

	Facilities and other equipment	Corporate assets	Total
Cost			
Balance as at December 31, 2016	85,067	10,475	95,542
Disposals	-	(2)	(2)
Balance as at December 31, 2017	85,067	10,473	95,540
Balance as at March 31, 2018	**85,067**	**10,473**	**95,540**
Accumulated depreciation			
Balance as at December 31, 2016	(17,987)	(9,994)	(27,981)
Disposals	-	1	1
Depreciation	(3,403)	(438)	(3,841)
Balance as at December 31, 2017	(21,390)	(10,431)	(31,821)
Depreciation	(851)	(37)	(888)
Balance as at March 31, 2018	**(22,241)**	**(10,468)**	**(32,709)**
Carrying amounts			
As at December 31, 2017	63,677	42	63,719
As at March 31, 2018	**62,826**	**5**	**62,831**

As at March 31, 2018 and December 31, 2017, 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 $4.4 million and $4.2 million, respectively.

5. Intangible Assets

	Infrastructure expansion	Depreciation of E&E assets	Total
Cost			
Balance as at December 31, 2016	12,509	46,051	58,560
Balance as at December 31, 2017	12,509	46,051	58,560
Balance as at March 31, 2018	**12,509**	**46,051**	**58,560**
Accumulated amortization			
Balance as at December 31, 2016	(2,658)	(46,051)	(48,709)
Amortization	(625)	-	(625)
Balance as at December 31, 2017	(3,283)	(46,051)	(49,334)
Amortization	(156)	-	(156)
Balance as at March 31, 2018	**(3,439)**	**(46,051)**	**(49,490)**
Carrying amounts			
As at December 31, 2017	9,226	-	9,226
As at March 31, 2018	**9,070**	**-**	**9,070**

6. Site Restoration Provision

Balance as at December 31, 2016	45,991
Revisions due to change in discount rate (note 3)	656
Revisions due to change in estimates (note 3)	(5,169)
Accretion	850
Balance as at December 31, 2017	42,328
Revisions due to change in discount rate (note 3)	361
Accretion (note 13)	235
Balance as at March 31, 2018	**42,924**

The Company has estimated the net present value of these site restoration obligations to be $42.9 million as at March 31, 2018 (December 31, 2017 - $42.3 million) based on an undiscounted total future liability of $85.6 million (December 31, 2017 - $85.6 million). These obligations are expected to be settled over the next 48 years with the majority of the costs to be incurred between 2033 and 2037 and between 2063 and 2065. The discount factor, being the risk-free rate related to the liability, was 2.2 percent at March 31, 2018 (December 31, 2017 - 2.3 percent).

7. Contract Liability

Balance at December 31, 2016	1,309
Revenue recognized in the period included in the contract liability	(605)
Balance at December 31, 2017	704
Revenue recognized in the period included in the contract liability	(482)
Balance at March 31, 2018	**222**

As previously mentioned in note 2 to the interim financial statements, initial consideration fees received by customers accessing and using the Chip Lakes access road are recorded as a contract liability. The contract liability balances at March 31, 2018 and December 31, 2017 are included in trade and other payables.

8. Continuing Notes and Payment-in-Kind Notes

As at	**March 31 2018**	December 31 2017
Continuing Notes		
Non-current	**29,571**	29,247
	29,571	29,247
Payment-in-Kind Notes		
Current	**7,492**	7,492
Non-current	**4,153**	2,784
	11,645	10,276
	41,216	39,523

The principal amount of the Continuing Notes outstanding at March 31, 2018 is $33.5 million (December 31, 2017 - $33.5 million). The Continuing Notes are carried at their amortized cost of $29.6 million on the condensed statements of financial position (December 31, 2017 - $29.2 million). The difference between the amortized cost and principal balance will be accreted and recorded as a finance expense over the period until the maturity of the Continuing Notes.

The principal amount of the PIK Notes outstanding at March 31, 2018 is $11.6 million (December 31, 2017 - $10.3 million). The PIK Notes issued are in lieu of cash payments of interest and reimbursable costs of the Noteholder. On April 24, 2018, a payment of $0.5 million relating to the proceeds of the rig mats disposition to a third party described in note 3 to these interim financial statements was made to the Noteholder in accordance with the Noteholder's consent to dispose of assets. This payment was a partial reduction to the non-current portion of the principal outstanding under the PIK Notes.

Both the Continuing Notes and PIK Notes (collectively, the **Notes**) are due on March 20, 2021 and bear an annual interest rate of 12.5 percent.

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 101.0 percent plus the accrued and unpaid interest thereon.

9. Credit Facility

Laricina has a demand credit facility of $10.0 million (December 31, 2017 - $10.0 million) with a major Canadian chartered bank which is secured by an equivalent cash deposit which has been classified as restricted cash on the condensed 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 March 31, 2018, the Company had issued letters of credit totalling $8.2 million (December 31, 2017 - $8.1 million) and secured a corporate credit card with a $0.1 million credit limit under this credit facility. No cash amount had been drawn.

10. Share Capital

Authorized

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

10. Share Capital (continued)

Issued

	Number of shares (thousands)	Amount
Common Shares		
Balance as at December 31, 2016	576,336	1,415,823
Cancellation of treasury shares	(6)	(15)
Balance as at December 31, 2017	576,330	1,415,808
Balance as at March 31, 2018	**576,330**	**1,415,808**

Stock option plan

There were no grants of options issued or exercised during the three months ended March 31, 2018. All stock options are fully vested and exercisable. As such, the Company did not record any share-based compensation in respect of stock options for the three months ended March 31, 2018 and the corresponding period of 2017.

	Number of options (thousands)	Weighted average exercise price
Outstanding and exercisable, December 31, 2017	451	$ 28.92
Forfeited	(19)	$ 29.47
Expired	(122)	$ 35.00
Outstanding and exercisable, March 31, 2018	**310**	**$ 26.48**

Performance share unit plan

There were no grants of performance share units (**PSU**s) issued or exercised during the three-month period ended March 31, 2018. All PSUs are fully vested and exercisable. As such, the Company did not record any share-based compensation in respect of PSUs for the three-month periods ended March 31, 2018 and 2017.

	Number of PSUs (thousands)	Weighted average exercise price
Outstanding and exercisable, December 31, 2017	34	$ 0.01
Forfeited	(20)	$ 0.01
Expired	(1)	$ 0.01
Outstanding and exercisable, March 31, 2018	**13**	**$ 0.01**

Warrants

In conjunction with the completion of a 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 would receive one common share.

	Number of warrants (thousands)	Weighted average exercise price
Outstanding and exercisable, December 31, 2017	28,804	$ 0.25
Expired	(28,804)	$ 0.25
Outstanding and exercisable, March 31, 2018	**-**	**$ -**

These Consent Fee Warrants were 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 were 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 2 of these interim financial statements. The fair value of the Consent Fee Warrants was classified as a level 3 measure under the fair value hierarchy.

On March 20, 2018, the Consent Fee Warrants expired unexercised. Immediately prior to the warrants' expiration, the fair value was measured and a finance cost recovery of $0.3 million was recorded. The liability was then derecognized and reclassified to the Company's contributed surplus at its fair value of $3.7 million.

Comparatively for the three-month period ended March 31, 2017, a finance cost recovery of $0.6 million was recorded to reflect the change in fair value of the Consent Fee Warrants at that time.

11. Other Income

For the three months ended March 31	**2018**	2017
Contractual revenues[(1)]:		
Revenue from third-party camp use	**3,957**	4,960
Revenue from third-party road use	**469**	2,313
Revenue from third-party communication tower use	**8**	-
Total contractual revenues	**4,434**	7,273
Gain on disposition of assets	**1**	-
	4,435	7,273

(1) Revenue earned from camp, road and communication tower use is wholly contractual revenue and assessed under the scope of IFRS 15.

12. Contract Cancellation Costs (Recovery)

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 cancelled the Saleski Transmission Project. Due to the denial, Laricina and its joint venture partner were contractually obligated to reimburse $4.5 million for costs ATCO Electric incurred in respect of the Saleski Transmission Project. As a result, the Company 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.

12. Contract Cancellation Costs (Recovery) (continued)

In the interim, ATCO Electric has sought to return materials from the Saleski Transmission Project and/or transfer them to other projects. During the third quarter of 2017, ATCO Electric indicated that they would reimburse $0.7 million to Laricina, representing the Company's share of amounts recovered less any applicable charges. Subsequently, ATCO Electric notified the Company that additional net funds of $0.1 million would be reimbursed and this was recorded in the first quarter of 2018. The cash reimbursement of $0.8 million was received on April 27, 2018.

13. Finance Expense

For the three months ended March 31	**2018**	2017
Interest on Continuing Notes	**1,388**	1,307
Accretion of site restoration obligation (note 6)	**235**	267
Re-measurement of warrants (note 10)	**(316)**	(605)
Accretion of amortized cost of Continuing Notes (note 8)	**324**	1,168
	1,631	2,137

14. Loss per Share

The basic and diluted loss per share was a nominal amount for the three-month periods ended March 31, 2018 and 2017.

Basic loss per share

The calculation of basic loss per share for the three months ended March 31, 2018 and 2017 was based on the loss attributable to common shareholders of $2.8 million and $1.7 million respectively, and the weighted-average number of common shares outstanding during the corresponding periods, calculated as follows:

(thousands)	**2018**	2017
Issued common shares at beginning of period	**576,330**	576,336
Effect of treasury shares cancelled	**-**	(2)
Weighted-average common shares outstanding (basic)	**576,330**	576,334

Diluted loss per share

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

15. Supplemental Cash Flow Information

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

For the three months ended March 31	**2018**	2017
Operating activities		
Trade and other receivables	**(3,306)**	(1,133)
Prepaid expenses and deposits	**(117)**	(127)
Trade and other payables	**246**	238
Net change in non-cash operating working capital	**(3,177)**	(1,022)
Investing activities		
Trade and other receivables	**(5)**	25
Net change in non-cash investing working capital	**(5)**	25

The cash interest received in the three months ended March 31, 2018 was $0.1 million (March 31, 2017 - $0.1 million). There were no cash interest amounts paid in the three month periods ended March 31, 2018 and 2017.

16. Contractual Obligations

The Company had the following cash-settled contractual obligations at March 31, 2018:

	2018	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Repayment of the Continuing Notes	-	-	-	33,493	-	-	33,493
Repayment of PIK Notes	-	7,492	-	4,152	-	-	11,644
Interest payments on the Notes(1)(2)	4,425	6,556	7,415	1,722	-	-	20,118
Operating leases	151	24	10	8	1	-	194
Other contractual obligations	429	703	1,684	1,591	1,645	15,555	21,607
Total contractual obligations	**5,005**	**14,775**	**9,109**	**40,966**	**1,646**	**15,555**	**87,056**

(1) If the principal balances of the Continuing Notes and/or the PIK Notes change 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, firm natural gas transportation costs, employee retention programs and other obligations.

Corporate Information

Officers

Diane Koenig
Executive Vice President

Noralee Bradley
Corporate Secretary

Directors

Jennifer Kennedy

Garry Mihaichuk

Paul Shopiro

Kazim Tahir-Kheli

Auditors

Deloitte LLP

Bankers

Canadian Imperial Bank of Commerce

Independent Reserve Evaluators

GLJ Petroleum Consultants Ltd.

Registrar and Transfer Agent

TSX Trust Company

Solicitors

Blake, Cassels & Graydon LLP

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