LARICINA ENERGY LTD.

2014 FIRST QUARTER INTERIM REPORT

Activity during the start of the year was focused on our two major projects – Germain and Saleski. At Germain, we are progressing our understanding of the Grand Rapids Formation at the Commercial Demonstration Project (CDP), and at Saleski, we have advanced the commercial development strategy for Phase 1 based on repeated positive performance at the pilot.

First Quarter 2014 Highlights

- At Germain:
  - Converted one well-pair from steam circulation to production and converted two more well-pairs subsequent to the end of the quarter;
  - Acquired 1.6 square-km of 4-D seismic at the CDP;
  - Construction continued on the diluent recovery unit in preparation of solvent injection into the reservoir at the CDP; and
  - Received the Environmental Completeness Report on the regulatory application for the Germain expansion to 155,000 barrels-per-day.

- At Saleski:
  - Began production from 1C sidetrack (1C-s) well resulting in four wells on production cycle during the quarter;
  - Drilled new well in the Grosmont D;
  - Acquired 1.1 square-km of 4-D seismic at the pilot; and
  - Continued Saleski Phase 1’s Once-Through Steam Generators (OTSG’s) fabrication on schedule.

- Corporate:
  - Issued $150.0 million in 11.5 percent senior secured notes with a four year term to CPPIB Credit Investments Inc. (CII), a wholly-owned subsidiary of CPP Investment Board (CPPIB); and
  - Incurred capital expenditures of $16.6 million with quarter-end working capital of $252.2 million.

Germain

The Germain CDP is intended to test and demonstrate project execution, optimized thermal recovery processes (including well configuration and placement in both the bitumen zone and thin basal water zone that lies just below the bitumen pay zone), sand control, artificial lift systems, start-up procedures and innovative recovery process, (primarily solvent-cyclic steam-assisted gravity drainage (SC-SAGD)) in the Grand Rapids Formation.

SAGD with wells placed in the bitumen zone is the primary recovery technology we are using at the CDP. By using SAGD as the base, we have layered in value-multiplying technology development. The traditional approach is to place the producing well above this basal water. Extensive technical studies by Laricina indicate that placing the producing well into the water is expected to maximize long-term well productivity and resource recovery. The traditional approach, by contrast, eventually leaves large volumes of bitumen resource stranded below the level of the producing well. Our plan is to exploit the basal water to increase the volume of reservoir that is heated by steam, mobilizing greater volumes of bitumen over the long term, optimize resource recovery and enhance economic value. To compare performance over time and optimize placement of the well bore for future phases, six producing wells at Germain's CDP were placed in the basal water and the other four in the bitumen zone.

After initial interruptions to start-up late in 2013 due to a third-party natural gas line break, steady operations have been achieved at the Germain CDP and production has begun to ramp-up. The plant was running well throughout the quarter, exceeding operational uptime targets and continues to do so into the second quarter. A planned turn-around is scheduled for June for general maintenance. Our goal for 2014 is to achieve a slow and steady ramp-up in production to manage and test the recovery processes and protect the integrity of our wells.

Current activities at Germain include seven well-pairs (four with producers in the bitumen zone and three in the basal water zone) in various stages of warm-up, circulation, conversion and production.

During the quarter we acquired 1.6 square-km of 4-D seismic to understand future changes that are occurring in the reservoir as a result of steam injection and bitumen production, and confirming well conformance.

Producers in the bitumen zone

For well-pairs with producer wells placed in the bitumen zone we expect both the producer and injector to circulate steam for approximately 120 days to establish communication between the paired wells prior to converting to production, as is typical in conventional SAGD well-pairs. At Germain, we have successfully used diluent both as a soak prior to production and in select wells injected part way through the circulation period to accelerate the heat connection. With the results to date, it appears that we will be able to achieve our forecast 120-day start-up schedule for wells in the bitumen zone.

Well-pair 9 converted to production during the quarter. Subsequent to the quarter, well-pairs 8 and 10 were also converted to production. We injected diluent into these wells to accelerate the connection between the injector and producer wells which is having a favourable impact. We will do the same for well-pair 7, which we expect to start producing in the second quarter. In addition, we implemented our plan for co-injection of methane gas with steam in well-pairs 8 and 9 to manage operating and chamber pressure differentials, well-pair conformance and production.

Producers in the basal water zone

From the three well-pairs initially started-up with producer wells placed in the basal water zone, we have not seen the anticipated production ramp-up since recovering operations from the plant interruption at the end of 2013 which affected these wells the most as they were the first started. After re-steaming the producers to re-establish connection to the overlying steam chamber (due to the temperature drop-off from the shut-down period), we still have not seen the production ramp-up we anticipated. Our evaluation of well, log and core data and further geological review of the lithology is indicating a thin tight streak is present in the basal water zone between the producers and injectors creating a barrier impeding bitumen flow. Similar tight streaks are frequently present in typical McMurray reservoirs and are generally not a consequence; however, operating pressure and temperature for many of those projects are much higher than the CDP's which would aid breaking through this layer. We are currently producing bitumen from one well in the basal water zone which has a small section of the well above the tight streak that indicates this is what is hampering production growth from the remaining sections.

Our current plan is to reposition three producers above this tight streak where we can take advantage of the heat invested into the reservoir to date and establish communication with the current injector to adequately test this thesis. We are currently refining and preparing this plan for regulatory approval to drill the wells.

SC-SAGD

We are preparing the CDP's facilities for solvent injection and completed commissioning of the diluent recovery unit subsequent to the quarter. SC-SAGD is planned to start in the third quarter of 2014. With the addition of solvents to the SAGD process we expect to improve per well production for the steam available.

Germain Expansion

We continue to progress our regulatory application for the 150,000 barrel-per-day expansion at Germain with responses to outstanding supplementary information requests underway. We will work closely with our stakeholders to respond to their concerns and continue to expect regulatory approval later in the year with the resolution of all outstanding concerns.

Saleski Pilot

We continued to further demonstrate the path to commerciality in the Grosmont Formation with repeatable and predictable production performance.

Grosmont C

A sidetrack well in the Grosmont C was drilled from the 1C well and completed late in 2013 with a new horizontal section offset 15 metres from the original 1C well. The new well, which we have labelled 1C-s, is approximately 700 metres in length. The sidetrack was drilled to demonstrate repeatable production from the Grosmont C following the success of our 2C well and to further validate drilling and completions techniques.

Wells 1C-s and 2C were steamed concurrently ("block steaming") meaning steaming all wells in a pattern at the same time, followed by producing from those wells concurrently. Production from 1C-s began in February as the well's steam chamber quickly coalesced with the existing 1C heated region without needing much steam. In addition, the reservoir is retaining heat - a good indication that there is stability within the steam chamber between 2C and 1C-s. The production performance data of the 1C-s well is tracking similarly to 2C, our benchmark well for the Grosmont C. We expect 1C-s rates to increase after an acid stimulation program which is currently planned for June. Our plan is to test the well prior to stimulation to produce a baseline and compare with post stimulation well data to understand the subsequent benefits and design of the stimulation program in our commercial strategy.

Our 2C well is demonstrating commercial-scale calendar day oil rates and steam-to-oil ratios (SOR) and continues to produce consistently after block steaming with 1C-s late in 2013. Through this initial cycle the temperature decline in the wells has been more gradual than individual steam cycles. This supports our view that block steaming is a successful operating strategy that promotes the coalescing of adjacent steam chambers in a uniform manner.

Grosmont D

Results have also been positive in our 1D well, producing since its last full steam cycle more than a year ago. We believe that the well's ability to continually produce indicates heat from the Grosmont C zone below is benefiting the Grosmont D. We have operated this well with intermittent short duration low-pressure steam injection with the result of approximately 400 days of continuous production and a cycle SOR of approximately 2.4.

Subsequent to the quarter, we drilled a new well in the Grosmont D into an undisturbed portion of the reservoir, labelled 3D. The well is approximately 800 metres long and is the first D zone well to be drilled balanced, and acidized prior to the liner being installed to maximize well deliverability. We expect this well will provide a more representative test of the Grosmont D zone's potential than previous D wells which were drilled using previous generation techniques. The well is currently being completed and prepared for its first steam cycle to begin in late May with production targeted to commence in the third quarter. Our current cost projection at completion is trending below budget, further validating our drilling performance and strengthening our confidence in our ability to meet our Saleski Phase 1 drilling target by capturing optimization opportunities, economies of scale from multi-well drilling and implementing our learnings to date.

Also in the second quarter, we expect to see the results from our most recent 4-D seismic program. Early in 2014, time lapse seismic was acquired and collected over the pilot site for the third consecutive year to identify and measure thermal changes in the reservoir as a result of steaming and/or production by comparing repeated datasets. Thus far, we have confirmed lateral and vertical heat growth indicating an increasing oil drainage area along with uniform well conformance, meaning the steam injected into the reservoir is uniform and contained, and the entire length of the respective well bores are contributing to production.

Saleski Phase 1

Detailed engineering and design of Saleski Phase 1 is expected to be 90 percent complete by the end of 2014. Fabrication on the OTSG's continued and we expect them to be completed and transferred to Laricina by year-end. We are working closely with our engineering design, procurement and construction (EPC) firm to achieve a competitive cost forecast for the total project, which including drilling and completions is currently estimated by Laricina at $520 million gross. We are re-defining our EPC contract strategy reviewing the convertible lump-sum option and other alternatives as we continue to identify opportunities for further cost reductions, including a smaller footprint, integrating vendor engineering data early, and incorporating identified design optimizations that require fewer materials. Start-up is expected for the third quarter of 2017, depending on project sanctioning and the timing of additional financing.

Marketing and Transportation

Laricina began delivering Germain bitumen blend volumes to market in the first quarter. Germain's crude oil marketing program has been shaped by our experience managing Saleski's volumes for the past three years and marketing operations for the two projects are closely linked.

Also during the quarter, we successfully tested a new rail trans-loading facility at Mitsue, Alberta, that is now regularly loading rail cars for delivery to a large refiner on the United States Gulf Coast. Approximately 40 percent of our bitumen blend sales volumes during the quarter were shipped by rail and using the nearby rail terminal has resulted in an overall decrease in per barrel trucking and transportation costs.

Corporate

Ramping up production at Germain and maintaining operations at the Saleski pilot to support the commercial development of Saleski Phase 1 are our operational objectives for 2014. Securing financing is at the core of these objectives. In March, we completed a $150 million debt issuance of 11.5 percent per annum senior secured notes with a four-year term to CII, a wholly-owned subsidiary of CPPIB that allows us to achieve these operational objectives while providing us with flexibility in managing our financing strategy in securing further funding to advance Saleski Phase 1.

During the first quarter capital expenditures were $16.6 million focused primarily on continued ramp-up at the Germain CDP, drilling the new 3D well at the Saleski pilot and engineering and OTSG fabrication at Saleski Phase 1. Laricina's working capital at the end of the quarter was $252.2 million which is adequate to fund the balance of the capital and operating spending program for 2014 of approximately $120.5 million

Outlook

As the macro issues affecting our sector continue to resolve themselves, we remain cautiously optimistic on returning interest and confidence in Canadian energy equities and the return of capital to the sector. Transportation debottlenecking, including expansion of railroad infrastructure, has continued to strengthen North America crude oil pricing, and sustained demand for heavy oil from United States Gulf Coast refineries has kept the heavy oil differential relatively narrow. At this time, fundamentals point to a continued return in market confidence and recovery, particularly for Canadian oil and gas producers.

Laricina remains focused on project execution, managing those variables within our control, namely, our projects and working capital. In support of our financing objectives for 2014, we recognize the importance of demonstrating performance at our projects, achieving capital and operating cost efficiencies, and communicating successful well performance data from our projects as operations ramp up.

We continually learn from the Saleski pilot and Germain CDP, applying what has worked and adapt for what has not. With experience comes knowledge and certainty for our commercial development strategy while at the same time we gain valuable operating experience. We are excited with the progress we have made at both Germain and Saleski during the quarter. We look forward to reporting further progress in the months ahead as we reinforce the next steps in project development and financing.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
May 13, 2014

The foregoing message contains forward-looking statements. Readers are directed to the Management's Discussion and Analysis and the "Advisory" on page 8, which also applies to the forward-looking statements in this message.

Management's Discussion and Analysis

May 13, 2014

Management's Discussion and Analysis (MD&A) of the financial results of Laricina Energy Ltd. (Laricina or the Company) should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three months ended March 31, 2014 and March 31, 2013, and the audited consolidated financial statements and MD&A contained in the Company's annual report for the financial year ended December 31, 2013. The financial information presented in this MD&A has been prepared in accordance with International Accounting Standard 34 – Interim Reporting.

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

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

Advisory on Forward-Looking Statements

This MD&A and interim report contains certain forward-looking statements relating to, without limitation, the Company's business and the intentions, plans, expectations, anticipated financial performance or condition. Forward-looking statements may include, but are not limited to, statements concerning estimates of contingent, prospective and recoverable resources, reserves and total potential production volumes; statements relating to the continued advancement of the Company's projects; and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "forecast", "potential" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could", "should" or "will" be taken or occur in the future. The reader is cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of May 13, 2014, there can be no assurance that such expectations will prove to be correct and, accordingly that actual results will be consistent with the forward-looking statements. The risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A and interim report include, but are not limited to: the Company's ability to secure financing; geological conditions relating to the Company's properties; the impact of regulatory changes especially as such relate to royalties, taxation and environmental changes; the impact of technology on operations and processes, and the performance of new technology expected to be applied or utilized by the Company; labour shortages; supply and demand metrics for oil and natural gas; the impact of pipeline capacity, upgrading capacity and refinery demand; general economic, business and market conditions; and such other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities, contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements contained in this MD&A and interim report and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. Unless required by law the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained in this MD&A and interim report are expressly qualified by this advisory and disclaimer.

Highlights for the First Quarter Ended March 31, 2014

	Three Months Ended March 31	
(thousands of dollars, except per share amounts)	**2014**	2013
Total assets	**1,501,483**	1,374,469
Working capital	**252,215**	257,736
Capital expenditures (cash)	**16,573**	78,997
Net operating revenue[1]	**3,639**	1,507
Finance and other income	**5,871**	1,161
Net loss	**(22,938)**	(10,349)
Net loss per common share – basic and diluted	**(0.34)**	(0.15)

[1] Net operating revenue is defined as bitumen blend sales revenue less royalties.

On March 20, 2014, Laricina closed a debt issuance of senior secured notes totaling $150.0 million which will allow the Company the flexibility to manage operations at the Saleski pilot and Germain commercial demonstration project (CDP) while evaluating alternative financing solutions to advance Saleski Phase 1. During the first quarter of 2014, the Germain CDP recorded first bitumen production and bitumen blend sales volumes. Production at the Germain CDP is expected to ramp up throughout the remainder of year as the Company converts additional well-pairs from steam circulation to production.

Operational results at the Saleski pilot continued to confirm the capability to produce at commercial rates from the Grosmont C Formation and increase our understanding of performance from the Grosmont D. During the first three months of 2014, bitumen production volumes increased due to production from a C-zone sidetrack well that was drilled during the fourth quarter of 2013. An additional D-zone well was drilled in the first quarter of 2014 to provide further confidence in our drilling and completion techniques for this zone. Detailed engineering and design for Saleski Phase 1 of 10,700 barrels per day continued to advance throughout the first quarter of 2014.

Operational Results

	Three Months Ended March 31	
(thousands of dollars)	**2014**	2013
Bitumen blend sales revenue	**3,777**	1,535
Royalties	**(138)**	(28)
Net operating revenue	**3,639**	1,507
Transportation and blending expenses	**1,730**	1,007
Operating expenses	**19,712**	6,027

Bitumen blend sales revenue

The Company derived net operating revenue during the first quarter of 2014 from ongoing production at the Saleski pilot and initial bitumen production volumes at the Germain CDP. Initial bitumen production and bitumen blend sales at the Germain CDP occurred early in the first of quarter 2014 and it is anticipated that bitumen production and corresponding bitumen blend sales will increase as additional well-pairs are converted and production continues to ramp up throughout the remainder of the year.

	Three Months Ended March 31	
(barrels)	**2014**	2013
Saleski net production volumes	**32,879**	23,070
Germain net production volumes	**11,783**	-
Net production volumes	**44,662**	23,070
Net sales volumes	**52,077**	28,870

Bitumen production and bitumen blend sales volumes increased during the first quarter of 2014 primarily due to the start-up of the Germain CDP. Since initial bitumen production, Laricina has recorded aggregate sales volumes in excess of 12,400 net barrels from the Germain CDP. Germain production volumes exited the first quarter at approximately 220 barrels per day.

Bitumen production and bitumen blend sales volumes increased at the Saleski pilot as a result of incremental volumes produced from the sidetrack well drilled in the fourth quarter of 2013 and increased production from the D zone.

Due to the experimental nature of the Saleski pilot and alternating cycles of steam injection and bitumen production, bitumen production and bitumen blend sales volumes are expected to fluctuate.

	Three Months Ended March 31			
		2014		2013
Average blend sales price (Cdn $/barrel)	**$**	**72.52**	$	53.17
West Texas Intermediate (WTI) (US $/barrel)	**$**	**98.68**	$	94.37
Western Canadian Select (Cdn $/barrel)	**$**	**83.39**	$	63.01

Net operating revenue increased during the first quarter of 2014 when compared to the same period of 2013 as a result of an increase in bitumen blend sales volumes and an increase in the average blend sales price per barrel of bitumen blend. The average blend sales price increased by $19.35 per barrel over the first quarter of 2013 due to the increase in the WTI benchmark, and narrowing of the differentials between WTI and Laricina's average blend sales price.

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

Royalties

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

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 the pipeline terminals. The increases in transportation and blending expenses during the first quarter of 2014 when compared to the same period in 2013 are due to the increase in bitumen blend sales volumes; a realized increase of $4.58 per barrel in diluent costs; and the quantity of diluent required for blending purposes as a result of the start-up of the Germain CDP.

Operating expenses

Operating expenses during the first three months of 2014 were primarily associated with operational activities at the Saleski pilot and the Germain CDP. As a result of realizing first bitumen production and bitumen blend sales at the Germain CDP, the Company began recognizing operating expenses related to the project. Prior to initial sales these expenses were capitalized. At the Saleski pilot, operating expenses during the first quarter of 2014 remained consistent with the comparative period of 2013.

Other operating expenses are related to the use of Laricina's camps by third parties and the maintenance of the Chip Lake road. As compared to the first three months of 2013, usage of Laricina's camps by third parties increased in 2014.

Capital Investment

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

	Three Months Ended March 31	
(thousands of dollars)	**2014**	2013
Exploration and evaluation assets:		
Land	**53**	232
Exploration	**3,463**	14,647
Development	**11,299**	54,487
Other	**4,659**	4,727
Capitalized general and administrative	**1,817**	5,399
	21,291	79,492
Property, plant and equipment	**192**	824
Intangible assets	**5,669**	1,735
Capital asset additions	**27,152**	82,051
Capital expenditures (cash)	**16,573**	78,997

Capital asset additions during the first quarter of 2014 included the continued advancement of engineering and purchases of long-lead equipment for Saleski Phase 1; construction of the diluent recovery system at the Germain CDP; and completion of the 2013-2014 winter exploration and development drilling program.

Exploration and evaluation assets

Land

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

Exploration

Exploration activities during the three months ended March 31, 2014 included the acquisition of 1.1 square-km of 4D seismic at the Saleski pilot, 1.6 square-km of 4-D seismic at Germain, and one exploration well at Germain. During the first three months of 2013, exploration activities included the acquisition of 23.5 square-km of 3-D seismic at Burnt Lakes, 5.1 square-km of 3-D seismic at Conn Creek and 1.1 square-km of 4-D seismic at Saleski; and the drilling of three exploration wells at Saleski.

Development activities

The majority of expenditures incurred during the first three months of 2014 and 2013 were for the advancement of Saleski and Germain.

	Three Months Ended March 31	
(thousands of dollars)	**2014**	2013
Saleski	**5,511**	8,814
Germain	**5,788**	45,088
Other	**-**	585
	11,299	54,487

Development activities during the first quarter of 2014 included detail engineering, site preparation and purchase of long-lead equipment for Saleski Phase 1; drilling a D-zone well at the Saleski pilot using new generation drilling techniques; and at the Germain CDP, continued conversion of well-pairs to production and the construction of a solvent recovery unit.

In the first three months of 2013, development activities primarily related to the construction of the Germain CDP, including the completion of four well-pairs, completing module fabrication and transportation of modules to the site. The 2012-2013 development drilling program included two water source wells, two monitoring wells and two observations wells for Saleski Phase 1.

Other

Other capital activities during the first three months of 2014 consisted primarily of provisions for future site restoration. During the same period of 2013 other capital activities consisted of regulatory consultation, progress on research and development projects, and provisions for future site restoration.

Property, plant and equipment

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

Intangible assets

During the three month period ended March 31, 2014, Laricina recorded intangible assets of $5.7 million. Intangible assets consist of the recapitalization of depreciation of certain components of the Saleski pilot and the Germain CDP such as the development wells that directly relate to the Company's understanding of the reservoir and assist in the future assignment of proved reserves. These costs will be recapitalized until the related reserves are recognized.

Corporate Results

(thousands of dollars)	Three Months Ended March 31 **2014**	2013
General and administrative expenses, net	**8,941**	7,554
Finance income	**542**	1,161
Other income	**5,329**	1,563
Net loss	**(22,938)**	(10,349)

General and administrative expenses

(thousands of dollars)	Three Months Ended March 31 **2014**	2013
General and administrative expenses, gross	**7,897**	10,407
Share-based compensation costs	**2,861**	2,546
Capitalized costs	**(1,817)**	(5,399)
General and administrative expenses, net	**8,941**	7,554

Gross general and administrative expenses decreased for the three month period ended March 31, 2014 as compared to the three month period ended March 31, 2013 due to decreases in external consulting services. Capitalized general and administrative costs consist of expenses directly related to project exploration and development activities. As the projects progress towards commercialization, the amount of general and administrative expenses capitalized will decline.

Early in 2014, Karen Lillejord, Vice President Finance and Controller, announced her retirement effective April 30, 2014. On April 2, 2014, Dean Setoguchi, Senior Vice President and Chief Financial Officer, resigned.

Finance and other income

Finance income decreased during the quarter ended March 31, 2014 when compared to the same period in 2013 primarily as a result of a decrease in the average funds on deposit, partially offset by an increase in the average interest rate received.

Other income during the three month period ended March 31, 2014 and March 31, 2013 relates to fees charged to third parties for the usage of Laricina's camp facilities and roads.

Finance costs

Finance costs during the three month period ended March 31, 2014 include accretion for the site restoration provision, interest recognized on the senior secured notes and amortization of debt issue costs and the cost of warrants issued in conjunction with these notes.

Finance costs during the period ended March 31, 2013 include the accretion for the site restoration provision and interest associated with a finance lease.

Depreciation and amortization

Depreciation and amortization expense of $7.9 million during the first three months of 2014, increased by $5.2 million when compared to the first three months of 2013. This increase in depreciation and amortization expense is due to depreciation of costs associated with the Germain CDP.

Net loss

Laricina recorded a net loss of $22.9 million for the first quarter of 2014 compared to a net loss of $10.3 million for the same period of 2013, an increase of $12.6 million. This increase in net loss is primarily the result of operating expenses for the Germain CDP which are no longer capitalized, partially offset by additional net operating revenue generated from the Germain CDP bitumen blend sales and other income from third-party usage of Laricina's camp facilities and roads.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Working capital	**252,215**	143,255	182,720	221,645	257,736	345,808	442,272	504,230
Capital asset additions	**16,573**	79,532	32,054	38,356	82,051	89,983	58,505	53,279
Net operating revenue	**3,639**	1,190	3,216	708	1,507	2,092	1,885	945
Finance and other income	**5,871**	4,268	1,996	2,071	2,724	2,154	4,086	4,599
Net loss	**(22,938)**	(12,267)	(10,240)	(9,750)	(10,349)	(8,600)	(7,341)	(8,588)
Net loss per common share, basic and diluted	**$ (0.34)**	$ (0.18)	$ (0.15)	$ (0.15)	$ (0.15)	$ (0.13)	$ (0.11)	$ (0.13)

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

Capital asset additions decreased in the first quarter of 2014 due to the completion of the Germain CDP. In the fourth quarter of 2013, additions included the provision for future site restoration related to the Germain CDP, and the fourth quarter of 2012 included the acquisition of an interest in the Chip Lake road. Other fluctuations in capital asset additions are a result of winter drilling programs which typically occur in the first quarter of each year, and the continued construction of the Germain CDP throughout 2012 and 2013.

Net operating revenue increased during the first quarter of 2014 due to initial bitumen production and bitumen blend sales from the Germain CDP. Net operating revenue from the Saleski pilot fluctuates as a result of the alternating cycles of steam injection and bitumen production.

Other income in the third quarter of 2012 includes net proceeds of $1.2 million from the sale of certain Saleski pilot data to a third party. Finance income has decreased since the second quarter of 2012 as a result of a decrease in the average funds on deposit.

Liquidity and Financial Resources

Working Capital

Working capital increased to $252.2 million at March 31, 2014 from $143.3 million at December 31, 2013 primarily due to the issuance of senior secured notes.

(thousands of dollars)	
Working capital, December 31, 2013	143,255
Capital expenditures (cash)	(16,573)
Operating activities	(18,960)
Proceeds from the issuance of senior secured notes and warrants	143,877
Other	616
Working capital, March 31, 2014	**252,215**

The remaining 2014 capital and operating spending program of approximately $120.5 million is focused on the advancement of engineering and fabrication of long-lead equipment for Saleski Phase 1, the conversion of the remaining well-pairs and drilling of three new wells at the Germain CDP, and the continued operating activities at the Germain CDP and Saleski pilot.

Laricina requires additional financing to continue advancing towards commercial operations at Saleski. The Company anticipates funding future capital and operating activities through an appropriate combination of debt and equity. Asset sales or joint arrangements may also be considered as alternative financing sources.

Investments

The Company's cash is currently held in a business operating account with a major Canadian bank which bears interest up to the bank's prime rate minus 1.9 percent. In addition, the Company holds excess cash in high interest savings accounts and guaranteed investment certificates with interest rates ranging from 1.5 to 1.8 percent. The Company may invest in Canadian government securities or fixed-term and bankers' acceptance investments with a minimum A rating.

Debt Financing

On March 20, 2014, Laricina completed a $150.0 million debt issuance of senior secured notes which mature on March 20, 2018 and bear interest at 11.5 percent payable quarterly. The senior secured notes are subject to certain financial and operational covenants which are further described in note 7 of the accompanying notes to the unaudited condensed consolidated interim financial statements for the three month period ended March 31, 2014. In conjunction with this debt issuance, 3,750,000 warrants were granted to purchase common shares at prices ranging from $15.00 to $20.00 with an expiry date of March 20, 2019.

Laricina has a demand credit facility of $15.0 million with a major Canadian bank which has been extended to October 31, 2014 and is secured by an equivalent cash deposit. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At March 31, 2014 and the date of this report, the Company had letters of credit totalling $5.3 million outstanding under this credit facility, and no amount has been drawn. The letters of credit are related to the development of the Germain and Saleski projects.

Commitments and Contractual Obligations

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

(thousands of dollars)	2014	2015	2016	2017	2018	Thereafter	**Total**
Interest payments on senior secured notes	12,099	17,250	17,250	17,250	5,151	-	**69,000**
Repayment of senior secured notes	-	-	-	-	150,000	-	**150,000**
Operating leases	3,277	2,825	301	174	21	-	**6,598**
Other contractual commitments	4,874	6,375	2,263	1,837	815	11,204	**27,368**

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

The Company's letters of credit at March 31, 2014, are to suppliers of utilities to support development at Saleski and Germain. If project development is interrupted, the Company will be required to reimburse up to $5.3 million of the suppliers' costs. The letters of credit of $4.8 million and $0.5 million are renewable on July 31, 2014 and August 31, 2014, respectively.

As at the date of this report, the Company has $1.4 million of purchase commitments outstanding which relate to the engineering and purchase of long-lead equipment for Saleski Phase 1.

Outstanding Share Data

At April 30, 2014, share capital consisted of the following:

(thousands)	
Common shares	68,438
Stock options	1,814
Replacement options	1,269
Performance share units	1,560
Warrants	3,750
Total outstanding	**76,831**

Critical Accounting Estimates

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

Changes in Accounting Policies

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

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

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

Risk Management

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

Outlook

The current working capital of $252.2 million provides Laricina sufficient flexibility to manage the 2014 capital and operating spending program which focuses on the operation of the Germain CDP, Saleski pilot and the advancement of Saleski Phase 1. The Company will continue to monitor the capital markets and consider a full range of financing strategies such as private or public equity, asset sales, debt and participation agreements with other oil sands development companies or joint agreements, to provide the funds necessary to advance its projects.

At the Saleski pilot, the Company will focus on demonstrating repeatable and predictable performance in the Grosmont C zone, and confirm the drilling and completions techniques required for optimal performance from the Grosmont D Formation. The new D-zone well drilled during the first quarter of 2014 is expected to commence production in the second quarter of 2014. Average production of approximately 625 gross barrels per day is expected from the Saleski pilot for the 2014 year.

The Germain CDP production volumes are expected to increase throughout the remainder of the year as additional well-pairs are converted to production. Solvent-cyclic SAGD (SC-SAGD) is planned for the third quarter of 2014 and is expected to increase production and reduce the quantity of steam required. The Company expects an average production rate of 2,350 gross barrels per day for the month of December from the Germain CDP which is dependent on the timing of drilling, start-up and production ramp-up of three new wells and the commencement of SC-SAGD.

The balance of the 2014 capital and operating spending program (including cash general and administrative expenses) is expected to be approximately $120.5 million, which includes operating activities at the Germain CDP and the Saleski pilot. The majority of capital spending for the remainder of 2014 will be for the advancement of engineering and fabrication of long-lead equipment for Saleski Phase 1, drilling three new wells at the Germain CDP, and the completion and tie-in of the additional D-zone well at the Saleski pilot. Other capital spending is expected to include regulatory work to support the Germain Phase 2 expansion, with approval expected late in 2014.

Condensed Consolidated Statements of Financial Position

As at			
Unaudited		**March 31**	December 31
(thousands of Canadian dollars)	Note	**2014**	2013
Assets			
Current assets			
Cash and cash equivalents		**189,293**	113,066
Short-term investments		**69,000**	44,000
Trade and other receivables		**16,862**	10,275
Prepaid expenses and deposits		**1,689**	1,660
Inventories		**4,509**	3,486
		281,353	172,487
Non-current assets			
Abandonment deposits and other		**2,120**	2,118
Exploration and evaluation assets	6	**1,085,721**	1,076,374
Property, plant and equipment		**80,242**	81,555
Intangible assets		**34,399**	28,887
Deferred income tax		**17,648**	10,673
		1,220,130	1,199,607
Total assets		**1,501,483**	1,372,094
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**28,872**	27,545
Finance lease obligation		**266**	1,687
		29,138	29,232
Non-current liabilities			
Senior secured notes	7	**129,682**	-
Site restoration provision		**71,923**	66,911
		201,605	66,911
Total liabilities		**230,743**	96,143
Shareholders' equity			
Share capital	8	**1,339,462**	1,337,048
Contributed surplus		**53,514**	38,201
Deficit		**(122,236)**	(99,298)
Total shareholders' equity		**1,270,740**	1,275,951
Total liabilities and shareholders' equity		**1,501,483**	1,372,094

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

Condensed Consolidated Statements of Comprehensive Loss

For the Three Months ended March 31
Unaudited
(thousands of Canadian dollars)

	Note	2014	2013
Revenue			
Bitumen blend sales		**3,777**	1,535
Royalties		**(138)**	(28)
Net operating revenue		**3,639**	1,507
Other income	9	**5,329**	1,563
		8,968	3,070
Expenses			
Transportation and blending		**1,730**	1,007
Operating		**19,712**	6,027
Pre-exploration		**-**	5
General and administrative		**8,941**	7,554
Depreciation and amortization		**7,937**	2,720
		38,320	17,313
Results from operating activities		**(29,352)**	(14,243)
Finance income		**542**	1,161
Finance expenses		**(1,103)**	(208)
Net finance income (expense)		**(561)**	953
Loss before income tax		**(29,913)**	(13,290)
Deferred income tax recovery		**(6,975)**	(2,941)
Total loss and comprehensive loss		**(22,938)**	(10,349)
Loss and comprehensive loss per common share	10		
Basic		**$ (0.34)**	$ (0.15)
Diluted		**$ (0.34)**	$ (0.15)

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

Condensed Consolidated Statements of Changes in Equity

Unaudited

(thousands of Canadian dollars)	**Share Capital**	**Contributed Surplus**	**Deficit**	**Total Equity**
Balance at December 31, 2012	1,333,979	31,410	(56,692)	1,308,697
Comprehensive loss	-	-	(10,349)	(10,349)
Share-based payments	-	2,252	-	2,252
Stock options exercised	308	(88)	-	220
Balance at March 31, 2013	1,334,287	33,574	(67,041)	1,300,820
Comprehensive loss	-	-	(32,257)	(32,257)
Share-based payments	-	7,214	-	7,214
Performance share units exercised	1,715	(1,714)	-	1
Replacement options exercised	858	(830)	-	28
Stock options exercised	188	(43)	-	145
Balance at December 31, 2013	1,337,048	38,201	(99,298)	1,275,951
Comprehensive loss	-	-	(22,938)	(22,938)
Share-based payments	-	3,447	-	3,447
Warrants issued on financing		14,249	-	14,249
Performance share units exercised	1,478	(1,477)	-	1
Replacement options exercised	936	(906)	-	30
Balance at March 31, 2014	**1,339,462**	**53,514**	**(122,236)**	**1,270,740**

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

Condensed Consolidated Statements of Cash Flows

For the Three Months ended March 31 Unaudited *(thousands of Canadian dollars)*	**2014**	2013
Cash flows from operating activities		
Comprehensive loss for the period	**(22,938)**	(10,349)
Adjustments for:		
Depreciation and amortization	**7,937**	2,720
Equity settled share-based payments	**2,456**	1,461
Amortization of equity settled debt issue costs	**53**	-
Unwinding of site restoration discount	**507**	112
Deferred income tax recovery	**(6,975)**	(2,941)
	(18,960)	(8,997)
Change in trade and other receivables	**(5,995)**	1,053
Change in prepaid expenses and deposits	**(338)**	(238)
Change in inventories	**(1,038)**	(331)
Change in trade and other payables	**(2,992)**	(4,741)
Net cash used in operating activities	**(29,323)**	(13,254)
Cash flows from investing activities		
Property, plant and equipment, and exploration and evaluation expenditures	**(14,236)**	(85,407)
Proceeds from the disposal of exploration and evaluation assets	**961**	-
Short-term investments	**(25,000)**	44,909
Abandonment deposits	**(2)**	(2)
Net cash used in investing activities	**(38,277)**	(40,500)
Cash flows from financing activities		
Proceeds from the issuance of senior secured notes and warrants	**145,217**	-
Proceeds from the issuance of common shares	**31**	220
Finance lease obligation	**(1,421)**	(1,288)
Net cash from (used in) financing activities	**143,827**	(1,068)
Net increase (decrease) in cash and cash equivalents	**76,227**	(54,822)
Cash and cash equivalents, beginning of period	**113,066**	310,884
Cash and cash equivalents, end of period	**189,293**	256,062

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

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

1. Reporting Entity

Laricina Energy Ltd. (Laricina or the Company) was incorporated on November 11, 2005 under the *Business Corporations Act* (Alberta). The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2014, encompasses the Company and its subsidiaries. Since inception, Laricina has focused on acquiring prospective oil sands properties, developing properties into projects, financing, attracting suitable personnel and developing innovative technologies. Two areas have been identified as near-term commercial projects, Saleski and Germain. The Company has a 60 percent working interest in Saleski and a 100 percent working interest in Germain. The Company requires equity and debt financing to fund projects beyond the Saleski pilot and Germain commercial demonstration project.

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

2. Basis of Preparation

Statement of compliance
The condensed consolidated interim financial statements have been prepared by the Company in accordance with IAS 34 *Interim Financial Reporting* and IFRS. The accounting policies applied by the Company in the condensed consolidated interim financial statements are the same as those applied by the Company in the consolidated financial statements as at and for the year ended December 31, 2013, except as described in Note 3.

The condensed consolidated interim financial statements were approved for release to shareholders by the Board of Directors on May 13, 2014.

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

3. Changes in Accounting Policies

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

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

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

4. Basis of Consolidation

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

5. Financial Instruments

Financial instruments are initially recognized in the statement of financial position at fair value. Subsequent measurement of financial assets and liabilities, except those at fair value through comprehensive loss and available-for-sale, are measured at amortized cost determined using the effective interest rate method. Cash and cash equivalents are comprised of cash balances, guaranteed investment certificates and high interest savings accounts that may be redeemed at the Company's option. Short-term investments are comprised of guaranteed investment certificates that are not redeemable at the Company's option. Trade and other receivables, and prepaid expenses and deposits are classified as loans and receivables, while trade and other payables are classified as other financial liabilities. The fair values approximate their carrying value due to the short-term nature of these instruments. Senior secured notes are carried at amortized cost determined using the effective interest rate method. The Company has not designated any financial instruments as available-for-sale.

5. Financial Instruments (continued)

Determination of fair values

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

Level 1 fair value measurement

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

Level 2 fair value measurement

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

Level 3 fair value measurement

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

The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers between levels of the fair value hierarchy during the period ended March 31, 2014.

6. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2013	1,105,639
Additions during the period	21,291
Balance, March 31, 2014	**1,126,930**
Depreciation	
Balance, December 31, 2013	(29,265)
Depreciation for the period	(11,944)
Balance, March 31, 2014	**(41,209)**
Carrying amounts	
As at December 31, 2013	1,076,374
As at March 31, 2014	**1,085,721**

7. Senior Secured Notes

Senior secured notes	150,000
Less unamortized discount	(4,483)
Less unamortized debt issue costs	(15,835)
Balance, March 31, 2014	**129,682**

On March 20, 2014, the Company issued senior secured notes (Notes) in aggregate principal amount of $150.0 million bearing interest at a rate of 11.5 percent per annum and a maturity date of March 20, 2018. Interest is paid quarterly on February 28, May 31, August 31 and November 30. On each interest payment date the Company may elect to issue notes in lieu of payment of interest. These additional notes are identified as payment-in-kind (PIK) notes. The PIK notes bear interest at a rate of 11.5 percent per annum. At March 31, 2014, the Company had not issued PIK notes.

The Notes are subject to certain financial and operational covenants including the following:

- Minimum working capital of $95.0 million;
- Minimum average daily bitumen production volumes commencing in the fiscal quarter ending December 31, 2014 and each fiscal quarter thereafter;
- Specified capital and operating expenditures commencing in the fiscal quarter ending June 30, 2014; and
- Certain reporting requirements.

In addition, the Notes are subject to certain exceptions and qualifications which limit the Company's ability to among other things: incur additional indebtedness; create or permit liens to exist; create or permit to exist restrictions on the ability to make certain payments and distributions; make certain dispositions and transfer of assets; and initiate amalgamations, mergers or consolidations. At March 31, 2014, the Company was in compliance with all debt covenants.

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

Debt issue costs and the discount associated with the debt issuance are amortized to net income over the life of the Notes using the effective interest rate method. Debt issue costs include $1.6 million of cash payments and $14.2 million of costs related to the issuance of 3,750,000 warrants. From the proceeds received on issuance, the amount allocable to the Notes has been determined first with the remaining proceeds being allocated to the warrants.

7. Senior Secured Notes (continued)

At March 31, 2014 the Company has the following obligations related to interest payments and repayment of the Notes:

Less than 1 year	17,250
Between one and three years	34,500
Between three and five years	167,250
	219,000

8. Share Capital

Authorized

Unlimited number of common shares without par value

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

Issued

	Number of shares (thousands)	**Amount**
Common Shares		
Balance, December 31, 2013	67,762	1,337,048
Performance share units exercised	64	1,478
Replacement options exercised	610	936
Balance, March 31, 2014	**68,436**	**1,339,462**

Replacement options

On June 18, 2012, the Company entered into a replacement option agreement with certain directors, officers and employees whereby the holders of specific options and performance warrants exchanged their rights to these options and performance warrants for replacement options. The economic value of the rights exchanged equaled the economic value of the replacement options granted on the date of the exchange. The replacement options expire on June 18, 2014 and for each replacement option exercised the holder will receive one common share.

	Number (thousands)		**Weighted Average Exercise Price**
Outstanding, December 31, 2013	1,879	$	0.05
Exercised	(610)	$	0.05
Outstanding, March 31, 2014	**1,269**	**$**	**0.05**
Exercisable, March 31, 2014	**1,269**	**$**	**0.05**

Stock Option Plan

The Company has a Stock Option Plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of options. The exercise price and vesting period of options granted is determined by the Board of Directors at the time of grant.

	Number (thousands)		**Weighted Average Exercise Price**
Outstanding, December 31, 2013	2,088	$	27.36
Granted	17		15.00
Expired	(212)		18.37
Forfeited	(11)		30.48
Outstanding, March 31, 2014	**1,882**	**$**	**28.24**
Exercisable, March 31, 2014	**1,072**	**$**	**27.37**

For the period ended March 31, 2014, compensation cost of $0.3 million ($1.4 million in 2013) has been recognized for options that have been granted of which $0.1 million ($0.6 million in 2013) was capitalized.

Performance Share Unit Plan

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

	Number (thousands)		**Weighted Average Exercise Price**
Outstanding, December 31, 2013	1,140	$	0.01
Granted	638		0.01
Exercised	(64)		0.01
Forfeited	(16)		0.01
Outstanding, March 31, 2014	**1,698**	**$**	**0.01**
Exercisable, March 31, 2014	**301**	**$**	**0.01**

For the three month period ended March 31, 2014, compensation cost of $3.1 million ($0.8 million in 2013) has been recognized for PSUs that have been granted of which $0.6 million ($0.4 million in 2013) was capitalized.

8. Share Capital (continued)

Warrants

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

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

For the three month period ended March 31, 2014, finance expense of $0.1 million has been recognized using the effective interest rate method for warrants that have been issued.

Share Appreciation Rights

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

	Number (thousands)		**Weighted Average Exercise Price**
Outstanding, December 31, 2013	102	$	29.80
Expired	(34)		31.25
Forfeited	(2)		31.25
Outstanding, March 31, 2014	**66**	**$**	**29.00**
Exercisable, March 31, 2014	**35**	**$**	**29.14**

All SARs were granted to employees directly involved in field activities. For the three month period ended March 31, 2014, a compensation recovery of $0.3 million (compensation cost of $0.2 million in 2013) has been recognized for SARs that have been granted. At March 31, 2014, the Company had recorded an accrued liability of $0.5 million ($0.9 million at December 31, 2013) for outstanding SARs. At March 31, 2014, the Company had an obligation of nil (nil at December 31, 2013) for SARs that had vested.

9. Other income

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

10. Loss and Comprehensive Loss per Share

Basic loss and comprehensive loss per share

The calculation of basic loss and comprehensive loss per share at March 31, 2014 was based on the loss and comprehensive loss attributable to common shareholders of $22.9 million ($10.3 million in 2013) and the weighted-average number of common shares outstanding during the three month periods ended March 31, calculated as follows:

(thousands)	**2014**	2013
Issued common shares at beginning of period	**67,762**	67,103
Effect of performance share units exercised	**12**	-
Effect of replacement options exercised	**20**	2
Effect of stock options exercised	**-**	-
Weighted average common shares outstanding (basic)	**67,794**	67,105

Diluted loss and comprehensive loss per share

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

The basic and diluted loss and comprehensive loss per share was $0.34 for the three month period ended March 31, 2014, compared to a basic and diluted loss per share of $0.15 for the three month period ended March 31, 2013.

Corporate Information

Senior Management

Glen C. Schmidt
President and CEO

James R. Hand
Senior Vice President Operations and COO

Derek A. Keller
Vice President Production

David Safari
Vice President Facilities

Marla A. Van Gelder
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Independent Investor

Ian D. Bruce [2, 4]
Independent Investor

Jonathan C. Farber [2, 3]
Managing Director, Lime Rock Partners

S. Barry Jackson [3, 4C]
Chairman, TransCanada Corporation

Gordon J. Kerr [2, 4]
Independent Businessman

Robert A. Lehodey, Q.C. [3C, 4]
Partner, Osler, Hoskin & Harcourt LLP

W. Glen Russell [3, 4]
Principal, Glen Russell Consulting

Glen C. Schmidt
President and CEO, Laricina Energy Ltd.

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

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