Q2

2013 SECOND QUARTER INTERIM REPORT

LARICINA
ENERGY LTD.

The first quarter of 2013 set the stage for what was to come, and the second quarter delivered. Laricina achieved first steam at the Germain Commercial Demonstration Project (CDP), a historic moment that marked the start of operations at our first commercial-scale project. We all share in the excitement of this milestone and look forward to first bitumen production later this year.

Most recently and subsequent to the quarter, we received regulatory approvals for Saleski Phase 1 from the Alberta Energy Regulator (AER) along with Order in Council from the Government of Alberta. These approvals represent a critical next step for both industry and the province in the development of this massive untapped resource in the Grosmont Formation, Alberta's second largest oil resource.

Second Quarter 2013 Highlights

- At Germain:
  - Completed facilities and well pad modules, and commissioned for start-up at CDP;
  - Achieved first steam on June 8, 2013;
  - Delivered this critical first phase ahead of schedule some $25 million below budget, with total project capital costs estimated at $410 million;
    - Ongoing construction and commissioning of fourth once-through steam generator (OTSG), and other equipment, expected to be completed during third quarter of 2013; and
  - Regulatory consultation for the 150,000 barrel-per-day expansion continued, with approval expected in 2013.

- At Saleski:
  - Pilot:
    - Successfully completed a 13-day maintenance turnaround, including debottlenecking the facility's water handling capacity; and
    - C1 and D1 wells entered into their fifth production cycles.
  - Phase 1:
    - Updated capital forecast targeting $520 million gross, which was reduced by $30 million from previous target; and
    - Subsequent to the quarter, received approvals from AER and Order in Council from the Government of Alberta for Saleski Phase 1 expansion.

- Infrastructure and Marketing:
  - After receiving Energy Resources Conservation Board (ERCB) approval for the Stony Mountain Pipeline (SMP), disposed of the SMP assets to a third party; and
  - Continued to expand delivery of blended bitumen by rail to complement our marketing and transportation strategy.
- Corporate:
  - Capital expenditures of $36.9 million made during the second quarter; and
  - Working capital was $221.6 million to the end of the second quarter.

Germain

The successful start-up of the Germain CDP began on June 8, 2013 as steam was introduced into the first of the project's well-pairs.

The operating team began well start-up by injecting steam into two production wells followed by steam injection into the associated injection wells shortly thereafter. We expect to warm up seven well-pairs which typically occur over three to four months. After sufficient heating is achieved to develop a hot zone between the wells, the well-pairs will be converted to early steam-assisted gravity drainage (SAGD), where steam is injected into the injector well while the producer well will be converted to production. We are targeting the third quarter for first oil production during early SAGD. Six out of the seven best performing well-pairs are expected to remain on production which maximizes steam capacity availability. The remaining four well-pairs will be brought online as needed for sustaining production. Construction of the solvent recovery unit to capture solvent returns from production continues and we expect to introduce solvent with steam (SC-SAGD) in four of the then producing well-pairs early in 2014.

We are extremely proud of everyone involved in this project. Among the many we would like to thank are Laricina's facilities team for their commitment to the project, along with the collaborative efforts of our drilling and operations groups. The work of employees, contractors and construction crews has been excellent, specifically over the past few months, where progress on site has been significant. And of course, we would like to highlight the commissioning team that brought this project on-line three weeks ahead of schedule. Everyone involved has set an outstanding precedent for project execution.

We are projecting capital costs for construction and commissioning of the Germain CDP to be $410 million, $25 million under the most recent cost forecast. This total includes a fourth OTSG, a third dilbit tank and the solvent recovery unit construction and commissioning that will occur over the remainder of this year and into 2014. The Germain CDP is fully funded with working capital on-hand. We brought the CDP on-line ahead of schedule and below cost, a significant achievement for Laricina.

Installed production capacity at the CDP is 5,000 barrels-per-day. After start-up and subsequent production ramp-up, we anticipate sustained production rates of approximately 75 percent of that capacity (approximately 3,700 barrels-per-day) by the end of 2014.

The Germain CDP has many objectives. We expect the CDP will validate SAGD and SC-SAGD performance from the Grand Rapids Formation. Another important objective is to foster the skills necessary to execute and deliver a project of size, to apply what we learn through staged commercial development. Starting at a smaller scale, we continue to learn about optimized well start-up, well completions, solvent injection, SAGD and SC-SAGD.

The Germain CDP is Phase 1 of the Germain development. Regulatory approval for Phases 2 through 4 at Germain, representing a planned 150,000 barrel-per-day expansion of production capacity, is expected in 2013.

Saleski Pilot

To allow for necessary maintenance and upkeep, the Saleski pilot successfully went through a scheduled turnaround that began on June 3, 2013. This is the pilot's first maintenance turnaround since the start of steaming in 2010.

Operations at the pilot were shut down and vessels were inspected and tested. All equipment was found to be in good shape and fit for service. Additionally, there was good news from the reservoir in that only a small amount of solids had accumulated within the vessels indicating solids production from the Grosmont has been minimal. Producing fewer solids from a reservoir reduces general wear and tear on a facility (solids may consist of fine clays, fine-grained minerals and other abrasive material that can, over time, break down vessels and equipment). Along with performing general maintenance and upkeep, we completed a debottleneck of the pilot's water handling facilities, increasing its capacity to better manage and operate the pilot under cyclic-SAGD (C-SAGD) recovery.

Immediately prior to the turnaround, all wells were temporarily shut-in. Once the turnaround was complete, the D1 and C1 wells began their respective production cycles. This is the fifth production cycle for both wells and we anticipate they will produce until late 2013 to early 2014. The C2 and D2 wells are both scheduled for production cycles later on in the year.

As a result of the turnaround and cycling of the wells, production at the pilot was down from the previous quarter. We continue to test a variety of cycling scenarios with the pilot serving as a valuable training ground in how to manage and sustain production levels. With all four wells scheduled to produce concurrently in the second half of 2013, we anticipate production levels for the remainder of the year to increase.

A critical focus of the pilot this year has been testing the level of communication between the C and D zones within the Grosmont. Building upon positive results from the first quarter's tracer injection test

(whereby a tracer element was injected with steam into a well and the tracer's presence in adjacent wells and the plant indicated movement between wells in different zones), we recorded further evidence of communication between the C and the D zones during the pilot's last steam cycle. Significant pressure and fluid changes were recorded in the D1 well when the adjacent C1 well was steaming. Positive communication again reinforces the opportunity to operate the C and D zones as an integrated system at the Saleski expansion.

We continue to use the pilot to optimize well and facility design for Saleski Phase 1.

Saleski Phase 1

Subsequent to the quarter, we received regulatory approvals from the AER along with Order in Council from the Government of Alberta for Saleski Phase 1 with production capacity of 10,700 barrels per day which would increase total approved gross production capacity to 12,500 barrels per day.

Laricina's initial regulatory application for Saleski Phase 1 was made in 2010, with an update to the application filed in October 2012. The application update was made to reflect the revision in recovery strategy from dual-well SAGD to single-well C-SAGD and the required modifications to wells and facilities (for example, a change in well design and count, an increase in steam capacity, and increase in operating pressure). With approvals in place, we are now able to focus on managing timelines and financing strategies.

With a late 2015 target date for start-up, we have engaged an engineering and construction firm to advance front-end engineering, design and procurement. This includes ordering certain long-lead items, such as steam generators.

As Saleski Phase 1 advances, we have been able to refine its capital cost estimate and are currently forecasting $520 million gross ($312 million net). This most recent reduced cost estimate has been achieved by down-sizing the well pad and manifold configurations, reducing the initial well count to 20 single wells, and reducing the overall size of the footprint from the initial design. Additionally, wherever possible the construction strategy for Saleski Phase 1 will use lump-sum agreements to manage inflation and increase cost certainty.

Beyond the Saleski pilot and Phase 1, future phases at Saleski include production capacity expansions to 282,500 gross barrels-per-day from the Grosmont. We expect to file the regulatory application for future phases in 2015.

Marketing & Infrastructure

After receiving regulatory approval from the ERCB for the SMP in May, we disposed of the SMP assets to a third party. We are now in discussions with the new owner for transportation services on the SMP and/or other proposed pipelines in the area.

For our near-term transportation needs, we continue to truck Saleski pilot sales volumes to regional pipeline and rail terminals. Initial blended bitumen sales volumes from the Germain CDP will also be trucked. To complement our existing trucking strategy, we continue to test shipping volumes by rail. We anticipate that shipping by rail will play an increasingly important role in our overall marketing strategy as our production and corresponding sales volumes increase.

Outlook

Laricina's advancements during the first half of the year have been significant. We have achieved important milestones at both Germain and Saleski, focusing on what is within our control – namely, managing our business and executing on our projects. To build on momentum and advance our projects, we continue to monitor the capital markets as financing remains a near-term goal.

An improved macro environment and resolution to sector-specific issues (transportation for example) are key to attracting capital. And we have seen recent improvements, such as the easing of pipeline constraints between the Midwest United States (US) and the US Gulf Coast. This has given Canadian producers better access to this important refining region.

The transportation debottlenecks have also strengthened North America crude oil pricing. Compared to the previous quarter, Canadian oil producers are achieving stronger underlying benchmark oil pricing relative to globally benchmarked Brent crude. The West Texas Intermediate to Brent differential has narrowed significantly due to the easing of pipeline constraints and additional heavy oil refining capacity. Additionally, lower Canadian heavy and synthetic oil production during the quarter, along with increased rail take-away capacity out of Western Canada to the US has strengthened Canadian differential pricing.

The US economy has continued its gradual recovery but it has not been a smooth or steady progression. However, the trend supports a cautiously optimistic view. Asia and other emerging markets are trending towards a slow down or deceleration from their high rates of growth. Growth in these markets continues, just at a slower rate than previous years.

Our working capital position to the end of the second quarter was $221.6 million, and is projected to be $117 million to the end of 2013. The Germain CDP is fully financed for its remaining capital and operating costs into 2014, as are continuing operations at the Saleski pilot. We continue to focus on stewarding our capital efficiently.

We are exploring and evaluating private equity, along with debt options for financing. The challenge is to balance our cost of capital with the value and potential we see in our future and the benefit of maintaining momentum in the development of our assets. Public markets remain a part of our financing plans, but must strengthen before a public listing is practical or feasible.

We have worked hard to get to this point. We have built an in situ oil sands company on the verge of commercial-scale production from the ground up. There is a genuine sense of pride in what we have achieved so far at the Saleski pilot and Germain CDP and we eagerly anticipate first production at Germain in the fall. With approvals in place and key learnings from Germain, our next commercial-scale project at Saleski is moving ahead. Our transformation into a major oil sands company continues as we reshape the future of Alberta's oil sands in the west Athabasca.

(signed) "Glen C. Schmidt"

Glen C. Schmidt
President and Chief Executive Officer
July 23, 2013

The foregoing message contains forward-looking statements. Readers are directed to the Management's Discussion and Analysis and the "Advisory" on page 7, which also applies to the forward-looking statements in this message.

Management’s Discussion and Analysis

July 23, 2013

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 six months ended June 30, 2013 and June 30, 2012, and the audited consolidated financial statements and MD&A contained in the Company’s annual report for the financial year ended December 31, 2012. The financial information presented in this MD&A has been prepared in accordance with International Accounting Standard 34 – Interim Financial 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.

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 July 23, 2013, 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 Second Quarter Ended June 30, 2013

	Three Months Ended June 30		**Six Months Ended June 30**	
(thousands of dollars, except per share amounts)	**2013**	2012	**2013**	2012
Total assets	**1,352,343**	1,387,869	**1,352,343**	1,387,869
Working capital	**221,645**	504,230	**221,645**	504,230
Capital expenditures (cash)	**36,926**	49,426	**115,923**	117,852
Net operating revenue(1)	**708**	945	**2,215**	1,636
Finance income	**966**	1,899	**2,127**	4,097
Net loss	**(9,750)**	(8,588)	**(20,099)**	(14,919)
Net loss per common share – basic and diluted	**(0.15)**	(0.13)	**(0.30)**	(0.23)

(1) Net operating revenue is defined as bitumen blend sales less royalties.

Laricina achieved another significant milestone during the second quarter of 2013 by substantially completing the construction and commissioning of the Germain commercial demonstration project (CDP). Initial steam injection commenced in two of the 10 well-pairs prior to June 30, 2013. Additional well-pairs will commence steaming as the staged start-up progresses. Laricina anticipates initial bitumen production during the third quarter of 2013.

The Company continues to evaluate solvent injections and study the connectivity between the C and D zones at the Saleski pilot. Net production volumes during the second quarter of 2013 have decreased as a result of wells completing production cycles and a planned turnaround at the pilot late in the second quarter. Subsequent to June 30, 2013, Laricina received the Order in Council from the Government of Alberta for the Saleski Phase 1 expansion of 10,700 barrels per day.

The remainder of 2013 will focus on the completion of construction and commissioning of the final components of the Germain CDP, including the solvent recovery unit; advancement of the front-end engineering and design, and procurement of long-lead equipment for Saleski Phase 1; and securing the necessary financing for the continued advancement of Saleski Phase 1.

Operational Results

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2013**	2012	**2013**	2012
Net operating revenue	**708**	945	**2,215**	1,636
Transportation and blending expenses	**464**	597	**1,471**	1,036
Operating expenses	**5,841**	5,811	**11,868**	11,043

Net operating revenue

Laricina recognizes net operating revenue from the Saleski pilot. Since first production in the second quarter of 2011, the Company has: proven commercial rates through steam injection and bitumen production cycles with cyclical steam-assisted gravity drainage (C-SAGD); introduced solvent to reservoir production tests; increased the length of production cycles; and continued to improve the understanding of communication between the C and D zones in the Grosmont Formation.

	Three Months Ended June 30		Six Months Ended June 30	
(barrels)	**2013**	2012	**2013**	2012
Net production volumes	**8,377**	13,840	**31,447**	24,400
Net bitumen blend sales volumes	**10,596**	17,607	**39,466**	30,007

Bitumen production and bitumen blend sales volumes increased during the first half of 2013 when compared to the same period in 2012 due to the completion of a second C-zone well, which recorded first production in June of 2012, and increases in the length of production cycles. A decrease in bitumen production and bitumen blend sales volumes during the second quarter of 2013 compared to the first quarter of 2013 resulted from a planned turnaround and fluctuations in the timing of production cycles. Laricina continues to study the connectivity between the C and D zones and the potential to extract bitumen more efficiently through combined well operations.

Although bitumen blend sales volumes have fluctuated since initial bitumen production, the Company continues to expand its knowledge of the Grosmont Formation utilizing the Company's planned C-SAGD recovery method. Laricina expects sales and production volumes to fluctuate through alternating cycles of steam injection and bitumen production, as the Company continues to optimize well and facility operations for advancing the commercial development design for the Grosmont.

	Three Months Ended June 30				Six Months Ended June 30			
	2013		2012		**2013**		2012	
Average sales price per barrel	**$**	**67.95**	$	55.12	**$**	**57.14**	$	56.17
West Texas Intermediate (WTI) (US $/barrel)	**$**	**93.98**	$	93.49	**$**	**94.18**	$	98.21
Western Canadian Select (Cdn $/barrel)	**$**	**76.80**	$	71.34	**$**	**69.84**	$	76.50

The increase in net operating revenue during the first six months of 2013 compared to the same period of 2012 is primarily due to higher bitumen blend sales volumes combined with a minor increase in the average realized price per barrel of bitumen blend. The increase in the second quarter average realized price per barrel is reflective of an increased WTI and narrowing differentials. Laricina's average sales price per barrel is net of terminal fees and other charges.

Laricina pays Crown royalties on oil sands production. Royalties decreased during the first six months ended June 30, 2013 when compared to the six months ended June 30, 2012 as a result of a decrease in the applicable royalty rate due to a lower WTI benchmark price and increased costs of transportation and blending used in royalty calculations.

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 volumes to the sales terminals. Increases in transportation costs are primarily due to an increase in trucking rates associated with road bans and increased distance to sales terminals used during 2013 compared to 2012. Increased blending costs during the first half of 2013 when compared to the first half of 2012 are due to increases in sales volumes and in the cost of diluent, partially offset by a decrease in the quantity of diluent required for blending. The decrease in the quantity of diluent used is primarily the result of increased efficiencies achieved through improved consistency in plant operations.

Operating expenses

Operating expenses incurred in the first six months of 2013 and 2012 were primarily related to operations at the Saleski pilot. Included in operating expenses for 2013 are costs related to the completion of a scheduled turnaround during the second quarter, analysis and evaluation of solvent performance, and the recovery of the solvent during bitumen production. Due to the experimental nature of the Saleski pilot, operating costs are expected to exceed net operating revenue throughout the pilot's life. Other operating expenses relate to road maintenance and use of camps by third parties.

Capital Investment

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

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2013**	2012	**2013**	2012
Exploration and evaluation assets:				
Land	**43**	42	**275**	30,103
Exploration	**648**	288	**15,295**	8,415
Development	**26,210**	33,451	**80,697**	78,426
Other	**3,913**	4,449	**8,640**	7,429
Capitalized general and administrative	**4,866**	4,698	**10,265**	8,570
	35,680	42,928	**115,172**	132,943
Property, plant and equipment	**930**	7,715	**1,754**	13,015
Intangible assets	**1,746**	2,636	**3,481**	7,744
Capital asset additions	**38,356**	53,279	**120,407**	153,702
Capital expenditures (cash)	**36,926**	49,426	**115,923**	117,852

Capital asset additions during the first six months of 2013 primarily included the completion of four well-pairs, module fabrication, construction and commissioning of the Germain CDP; and the completion of the 2012-2013 winter exploration and development drilling programs.

Exploration and evaluation assets

Land

Land additions during 2013 were for the continued planning and maintenance of Laricina's lease holdings. On February 15, 2012 the Company closed a transaction to acquire the remaining working interests in certain jointly-controlled oil sands properties for total market consideration of $30.0 million consisting of 705,882 common shares valued at $42.50 per common share.

Exploration

During the first half 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 a three exploration well program at Saleski. During the first six months of 2012 exploration activities included the acquisition of 25.0 km of 2-D seismic at Germain, 20.7 square-km of 3-D seismic at Saleski, 1.3 square-km of 4-D seismic at Saleski; and the drilling of five exploration wells, three at Germain and two at Saleski.

Development activities

Consistent with the same period in 2012, the majority of the development expenditures incurred during the six month period ended June 30, 2013 were to support the completion of the Germain CDP.

	Six Months Ended June 30	
(thousands of dollars)	**2013**	2012
Saleski	**11,419**	21,857
Germain	**68,709**	55,536
Other	**569**	1,033
	80,697	78,426

Development activities during the first half of 2013 primarily related to the substantial completion of construction at the Germain CDP, which included completing the remaining four well-pairs. Prior to June 30, 2013 commissioning of the Germain CDP commenced and steam was injected into two of the well-pairs. Development activities at Saleski included front-end engineering for the Saleski Phase 1 expansion of 10,700 barrels per day. The 2012-2013 development drilling program included two water source wells, two monitoring wells and two observation wells which will be used for Saleski Phase 1.

In the first six months of 2012, development activities for Germain included the advancement of engineering, module fabrication and equipment purchases for the Germain CDP. Development activities for Saleski included the drilling of additional C zone wells and commissioning a second steam generator at the Saleski pilot. The 2011-2012 development drilling program included four observation wells, three for Saleski Phase 1 and one at Germain for Phase 2.

Other

Other capital activities during the six month period ended June 30, 2013 included regulatory consultation for the Stony Mountain Pipeline, progress on research and development projects, and provisions for future site restoration. Other capital activities during the comparable period of 2012 related to initial engineering and consultation work for the Stony Mountain Pipeline, regulatory work and progress on research and development activities.

During the second quarter of 2013, Laricina disposed of its interest in the Stony Mountain Pipeline assets for gross proceeds of $10.0 million.

Property, plant and equipment

Property, plant and equipment additions during the first six months of 2013 were primarily for corporate assets related to information technology. Property, plant and equipment additions during the comparable period in 2012 were primarily for road upgrades.

Intangible assets

In the six month period ended June 30, 2013, Laricina recorded intangible assets of $3.5 million for the recapitalization of depreciation of certain components of the Saleski pilot. Intangible asset additions during the same period of 2012 included $4.8 million for the expansion of available power for the Company's future development projects at Germain and $2.9 million for the recapitalization of depreciation of certain components of the Saleski pilot. The depreciation of certain components of the pilot such as the development wells that directly contribute to the Company's understanding of the reservoir and assist in the assignment of proven reserves are recapitalized until the related reserves are recognized.

Corporate Results

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2013**	2012	**2013**	2012
General and administrative expenses, net	**7,008**	7,672	**14,562**	13,777
Finance income	**966**	1,899	**2,127**	4,097
Other income	**1,105**	2,700	**2,668**	5,704
Net loss	**(9,750)**	(8,588)	**(20,099)**	(14,919)

General and administrative expenses

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of dollars)	**2013**	2012	**2013**	2012
General and administrative expenses, Gross	**9,976**	9,188	**20,383**	17,478
Stock-based compensation costs	**1,898**	3,182	**4,444**	4,870
Capitalized costs	**(4,866)**	(4,698)	**(10,265)**	(8,571)
General and administrative expenses, net	**7,008**	7,672	**14,562**	13,777

General and administrative expenses increased during the period ended June 30, 2013 compared to the same period of 2012 primarily due to the continued growth of the Company's employee and consulting base, and the additional overhead costs associated with increased personnel. During 2013, Laricina has increased its personnel base to support field operations at the Germain CDP and the advancement of Saleski Phase 1. Capitalized general and administrative costs consist of costs directly related to project exploration and development activities.

Finance income

Finance income decreased during the six month period ended June 30, 2013 when compared to the six month period ended June 30, 2012 primarily due to the decreased funds on deposit. During the period ended June 30, 2013, excess cash was held in high-interest savings accounts and guaranteed investment certificates with interest rates ranging from 1.2 percent to 1.8 percent consistent with interest rates during the first half of 2012.

Other income

Other income during the six month periods ended June 30, 2013 and June 30, 2012 relates to fees charged to third parties for the usage of Laricina's camp facilities and roads.

Finance costs

Finance costs include accretion for the site restoration provision and interest recorded on the finance lease associated with the Germain permanent camp.

Depreciation and amortization

Depreciation and amortization expense of $5.4 million during the first six months of 2013 increased from $3.8 million recorded in the first six months of 2012. Increases in depreciation and amortization expense are related to the acquisition of an interest in the Chip Lake road during the fourth quarter of 2012.

Net loss

Laricina recorded a net loss of $9.8 million for the three month period ended June 30, 2013 compared to a net loss of $8.6 million during the three month period ended June 30, 2012. The increase in net loss is primarily a result of decreases in finance, due to less funds on deposit during the 2013, and other income from less third-party camp usage.

The Company recorded a net loss of $20.1 million for the six month period ended June 30, 2013, compared to a net loss of $14.9 million for the six month period ended June 30, 2012. This increase in net loss is primarily due increased depreciation associated with the Chip Lake road, and decreases in finance and other income from less funds on deposit and less third-party camp usage, respectively. Typical of a company in early stages of operations, Laricina expects to continue to show net losses at least until commercial levels of production are achieved.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q2 2013**	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Working capital	**221,645**	257,736	345,808	442,272	504,230	554,313	628,121	706,696
Capital asset additions	**38,356**	82,051	89,983	58,505	53,279	100,423	77,431	61,333
Net operating revenue	**708**	1,507	2,092	1,885	945	691	1,328	784
Finance and other income	**2,071**	2,724	2,154	4,086	4,599	5,202	4,919	2,622
Net loss	**(9,750)**	(10,349)	(8,600)	(7,341)	(8,588)	(6,331)	(5,476)	(6,089)
Net loss per common share - basic and diluted	**$ (0.15)**	$ (0.15)	$ (0.13)	$ (0.11)	$ (0.13)	$ (0.10)	$ (0.09)	$ (0.10)

Capital asset additions in the fourth quarter of 2012 included an acquisition of an interest in the Chip Lake road and additions in the first quarter of 2012 included a $30.0 million acquisition of the remaining working interests in certain jointly-controlled oil sands assets. Fluctuations in capital additions are the result of the progress of the Germain CDP engineering, fabrication, construction and commissioning, and the winter drilling programs, which typically occur in the first quarter of each year.

Net operating income increased throughout 2012 and the first quarter of 2013 as a result of increases in sales volumes, partially offset by declines in the average realized price. Net operating income decreased during the second quarter of 2013 as a result of a decrease in sales volumes associated with the plant turnaround and timing of production cycles, partially offset by an increase in the average realized price. Sales volumes have fluctuated since initial production commenced in the second quarter of 2011, consistent with the Company's planned cycles of alternating steam injection and bitumen production.

Other income during 2012 and 2013 is associated with third-party usage of Laricina's camps and roads. Other income in the third quarter of 2012 and fourth quarter of 2011 includes net proceeds of $1.2 million and $2.7 million, respectively, from the sale of certain Saleski pilot data. Finance income has decreased since the third quarter of 2011 as a result of decreased funds on deposit.

Liquidity and Financial Resources

Working Capital

Working capital decreased from December 31, 2012 by $124.2 million to June 30, 2013 primarily due to capital expenditures including the completion and commissioning of the Germain CDP and the 2012-2013 exploration program.

(thousands of dollars)	
Working capital at December 31, 2012	345,808
Capital expenditures (cash)	(115,923)
Operating activities	(17,874)
Other	9,634
Working capital at June 30, 2013	**221,645**

Laricina has sufficient working capital to finance the completion of commissioning the Germain CDP facility. The remaining 2013 capital and operating spending program of approximately $106.0 million is focused primarily on the commissioning of the Germain CDP, infrastructure development and the advancement of the Saleski Phase 1 project. Approximately 30 percent of the program is associated with the Germain CDP and 15 percent is tied to the advancement of the Saleski Phase 1 project. The balance of the spending will include operations at the Saleski pilot and Germain CDP, the advancement of future phases at Saleski and Germain, infrastructure, studies, other corporate capital, and general and administrative expenses. The Company expects working capital to be approximately $117.0 million at December 31, 2013.

The future capital expenditures Laricina requires to continue advancing future phases including the Saleski Phase1 expansion depend on future financing. The Company anticipates funding 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.

If Laricina is unable to arrange financing in the short term, the rate of capital expenditures can be moderated to preserve capital until financing markets improve.

Investments

The Company's cash is currently held in a business operating account with a major Canadian bank which bears interest up to the bank's prime rate minus 1.9 percent. In addition, the Company holds excess cash in high interest savings accounts and guaranteed investment certificates with interest rates ranging from 1.2 to 1.8 percent. The Company may invest in Canadian government securities or fixed-term and bankers' acceptance investments with a minimum A rating.

Debt Financing

Laricina has a demand credit facility of $15.0 million with a major Canadian bank which has been extended to October 31, 2013 and is secured by an equivalent cash deposit. The credit facility is intended for general corporate purposes, including the exploration, development and acquisition of oil sands properties. At June 30, 2013 and the date of this report, the Company had letters of credit totalling $3.0 million and $5.0 million, respectively, 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.

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

Commitments and Contractual Obligations

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

(thousands of dollars)	Office	Field
2013 remainder	1,426	5,728
2014	2,928	6,527
2015	2,423	2,954
2016	120	1,839
2017 and thereafter	230	1,068

The Company's letters of credit 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 $5.0 million of the suppliers' costs. The letters of credit of $4.8 million and $0.2 million are expected to be renewed on July 31, 2013 and August 31, 2013, respectively.

As at the date of this report, the Company has $9.8 million of purchase commitments outstanding which relate to the completion of construction and commissioning of the Germain CDP and engineering for the Saleski Phase 1.

Outstanding Share Data

At July 23, 2013, share capital consisted of the following:

(thousands)	
Common shares	67,463
Stock options	2,197
Replacement options	2,141
Performance share units	945
Total outstanding	**72,746**

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, 2012 in the Company's Annual Report. The nature of critical accounting estimates for Laricina remains unchanged since December 31, 2012.

Changes in Accounting Policies

The Company has adopted the following new and revised standards effective January 1, 2013. These changes have been made in accordance with the applicable transitional provisions.

IFRS 7 *Financial Instruments: Disclosures* was amended to clarify requirements for offsetting financial assets and financial liabilities and to enhance the corresponding disclosure requirements. The modifications to this standard had no impact to Laricina.

IFRS 10 *Consolidated Financial Statements* replaces International Accounting Standard (IAS) 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee 12 *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The requirements for consolidation have remained essentially consistent with IAS 27. Laricina assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation of its wholly-owned subsidiaries.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the rights and obligations of each investor. Joint operations require a company to recognize its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method of accounting as outlined in IAS 28, Investments in Associates and Joint Ventures. Laricina classified its joint arrangements in accordance with IFRS 11 on January 1, 2013 and concluded that the adoption of the standard did not result in any changes in the accounting treatment of its joint arrangements.

IFRS 13 *Fair Value Measurement* provides a comprehensive standard for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing an asset or liability under current market conditions, including risk assumptions. Laricina's adoption of IFRS 13 required no change in valuation techniques.

The adoption of these new accounting standards has had no impact on the recognition and measurement of the balances recorded in the financial statements.

A number of new accounting standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2013 and were not applied in preparing the condensed consolidated financial statements for the first quarter.

The Company has reviewed the new standards and interpretations required for annual periods beginning January 1, 2014 and determined that International Accounting Standard 32 *Financial Instruments: Presentation* is relevant but not yet applicable to these financial statements. The impact of this standard is not yet determined.

The Company has also reviewed the new standards and interpretations required for annual periods beginning January 1, 2015 and determined that IFRS 9 *Financial Instruments* is relevant but not yet applicable to these financial statements. The impact of this standard is not yet determined.

Risk Management
Risk factors remain substantially unchanged from December 31, 2012. 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 2012.

Outlook
Laricina's working capital of $221.6 million provides Laricina sufficient resources to complete the commissioning of the Germain CDP. Laricina will continue to monitor the capital markets and consider a full range of financing strategies to provide the funds necessary to advance its projects, such as private or public equity, asset sales, debt and participation agreements with other oil sands development companies or joint agreements.

During the remainder of 2013, the majority of capital spending will be for the construction and commissioning of final components of the Germain CDP which were not required for initial steam injection, including an additional steam generator, dilbit tank and the solvent recovery unit. Laricina anticipates initial bitumen production during the third quarter of 2013. Additional well-pairs will commence steaming as the staged start-up of the Germain CDP progresses.

Laricina will require additional financing to advance front-end engineering and design, site preparation and drilling for the Saleski Phase 1 expansion of 10,700 barrels per day. The Saleski pilot will continue to focus on improved production performance by repetition of the C-SAGD process and further evaluation of solvent injections.

Other activities during the remainder of 2013 include regulatory work to support the Germain Phase 2 expansion.

As the Company advances additional projects at Saleski and Germain and commences commercial operations of the Germain CDP, additional expertise will be required. This expertise will be required for all aspects of the business and will include a combination of head office and field employees and consultants. The Company expects general and administrative expenses to increase as a result of growth in personnel.

The remaining 2013 capital and operating spending program (including cash general and administrative expenses) is expected to be approximately $106.0 million with the majority of the costs for the completion of construction and commissioning of the Germain CDP. With the completion of financing the remaining capital and operating spending program would be expanded to approximately $143.8 million to accommodate advancement of the Saleski Phase 1 expansion.

Condensed Consolidated Statements of Financial Position

As at			
Unaudited *(thousands of Canadian dollars)*	Note	**June 30 2013**	December 31 2012
Assets			
Current assets			
Cash and cash equivalents		**248,587**	395,884
Trade and other receivables		**7,685**	7,923
Prepaid expenses and deposits		**1,690**	818
Inventories		**4,125**	3,355
		262,087	407,980
Non-current assets			
Abandonment deposits and other		**2,114**	2,109
Exploration and evaluation assets	6	**974,677**	874,354
Property, plant and equipment		**83,531**	84,587
Intangible assets		**25,699**	22,531
Deferred income tax		**4,235**	-
		1,090,256	983,581
Total assets		**1,352,343**	1,391,561
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**35,415**	54,531
Finance lease obligation		**5,027**	7,641
		40,442	62,172
Non-current liabilities			
Site restoration provision		**18,325**	18,982
Deferred income tax		**-**	1,710
		18,325	20,692
Total liabilities		**58,767**	82,864
Shareholders' equity			
Share capital	7	**1,335,402**	1,333,979
Contributed surplus		**34,965**	31,410
Deficit		**(76,791)**	(56,692)
Total shareholders' equity		**1,293,576**	1,308,697
Total liabilities and shareholders' equity		**1,352,343**	1,391,561

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

Condensed Consolidated Statements of Comprehensive Loss

Unaudited *(thousands of Canadian dollars)*	Note	Three Months Ended June 30 **2013**	 2012	Six Months Ended June 30 **2013**	 2012
Revenue					
Bitumen blend sales		**720**	970	**2,255**	1,685
Royalties		**(12)**	(25)	**(40)**	(49)
Net operating revenue		**708**	945	**2,215**	1,636
Other income	9	**1,105**	2,700	**2,668**	5,704
Gain on disposal of exploration and evaluation assets	6	**746**	-	**746**	-
		2,559	3,645	**5,629**	7,340
Expenses					
Transportation and blending		**464**	597	**1,471**	1,036
Operating		**5,841**	5,811	**11,868**	11,043
Pre-exploration		**105**	125	**110**	160
General and administrative		**7,008**	7,672	**14,562**	13,777
Depreciation and amortization		**2,667**	1,910	**5,387**	3,769
		16,085	16,115	**33,398**	29,785
Results from operating activities		**(13,526)**	(12,470)	**(27,769)**	(22,445)
Finance income		**966**	1,899	**2,127**	4,097
Finance expenses		**(194)**	(267)	**(402)**	(565)
Net finance income		**772**	1,632	**1,725**	3,532
Loss before income tax		**(12,754)**	(10,838)	**(26,044)**	(18,913)
Deferred income tax recovery		**(3,004)**	(2,250)	**(5,945)**	(3,994)
Total loss and comprehensive loss		**(9,750)**	(8,588)	**(20,099)**	(14,919)
Loss and comprehensive loss per common share	8				
Basic		**$ (0.15)**	$ (0.13)	**$ (0.30)**	$ (0.23)
Diluted		**$ (0.15)**	$ (0.13)	**$ (0.30)**	$ (0.23)

The accompanying notes are an integral part of these condensed consolidated 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, 2011	1,286,352	28,478	(25,832)	1,288,998
Comprehensive loss	-	-	(14,919)	(14,919)
Issuance of common shares in exchange for assets	30,000	-	-	30,000
Share-based payments	-	4,723	-	4,723
Performance warrants exercised	8,323	(445)	-	7,878
Performance share units exercised	1,673	(1,672)	-	1
Stock options exercised	1,285	(348)	-	937
Balance at June 30, 2012	1,327,633	30,736	(40,751)	1,317,618
Comprehensive loss	-	-	(15,941)	(15,941)
Share-based payments	-	3,612	-	3,612
Performance warrants exercised	2,255	(127)	-	2,128
Performance share units exercised	704	(704)	-	-
Replacement options exercised	1,720	(1,664)	-	56
Stock options exercised	1,667	(443)	-	1,224
Balance at December 31, 2012	1,333,979	31,410	(56,692)	1,308,697
Comprehensive loss	-	-	(20,099)	(20,099)
Share-based payments	-	4,611	-	4,611
Performance share units exercised	858	(858)	-	-
Replacement options exercised	69	(67)	-	2
Stock options exercised	496	(131)	-	365
Balance at June 30, 2013	**1,335,402**	**34,965**	**(76,791)**	**1,293,576**

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

Condensed Consolidated Statements of Cash Flows

For the Six Months ended June 30 Unaudited *(thousands of Canadian dollars)*	**2013**	2012
Cash flows from operating activities		
Comprehensive loss for the period	**(20,099)**	(14,919)
Adjustments for:		
Depreciation and amortization	**5,387**	3,769
Equity settled share-based payments	**2,549**	2,894
Unwinding of site restoration discount	**234**	199
Deferred income tax recovery	**(5,945)**	(3,994)
	(17,874)	(12,051)
Change in trade and other receivables	**2,529**	115
Change in prepaid expenses and deposits	**(734)**	(118)
Change in inventories	**(750)**	(125)
Change in trade and other payables	**(2,903)**	(4,301)
Net cash used in operating activities	**(19,732)**	(16,480)
Cash flows from investing activities		
Property, plant and equipment, and exploration and evaluation expenditures	**(132,163)**	(111,009)
Proceeds from the disposal of exploration and evaluation assets	**6,850**	-
Intangible expenditures	**-**	(4,803)
Abandonment deposits	**(5)**	(4)
Net cash used in investing activities	**(125,318)**	(115,816)
Cash flows from financing activities		
Proceeds from the issuance of common shares	**367**	8,816
Finance lease obligation	**(2,614)**	(2,655)
Net cash from (used in) financing activities	**(2,247)**	6,161
Net decrease in cash and cash equivalents	**(147,297)**	(126,135)
Cash and cash equivalents, beginning of period	**395,884**	656,891
Cash and cash equivalents, end of period	**248,587**	530,756

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

Notes to the Condensed Consolidated Interim Financial Statements – June 30, 2013

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 six months ended June 30, 2013 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, Germain and Saleski. The Company will require equity and debt financing to fund projects beyond the Saleski pilot and Germain commercial demonstration projects.

These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements which were prepared in accordance with International Financial Reporting Standards (IFRS) and are included in the Company's Annual Report for 2012.

2. Basis of Preparation

Statement of compliance
These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting.* The accounting policies applied by the Company in the condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended December 31, 2012, except as described in Note 3.

The condensed consolidated interim financial statements were approved for release to shareholders by the Board of Directors on July 23, 2013.

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 2012.

3. Changes in Accounting Policies

The Company has adopted the following new and revised standards effective January 1, 2013. These changes have been made in accordance with the applicable transitional provisions.

IFRS 7 *Financial Instruments: Disclosures* was amended to clarify requirements for offsetting financial assets and financial liabilities and to enhance the corresponding disclosure requirements. The modifications to this standard had no impact to Laricina.

IFRS 10 *Consolidated Financial Statements* replaces International Accounting Standard (IAS) 27 *Consolidated and Separate Financial Statements* and Standing Interpretations Committee (SIC) 12 *Consolidation – Special Purpose Entities*. IFRS 10 requires consolidation only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The requirements for consolidation have remained essentially consistent with IAS 27. Laricina assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation of its wholly-owned subsidiaries.

IFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures*, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the rights and obligations of each investor. Joint operations require a company to recognize its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method of accounting as outlined in IAS 28, Investments in Associates and Joint Ventures. Laricina classified its joint arrangements in accordance with IFRS 11 on January 1, 2013 and concluded that the adoption of the standard did not result in any changes in the accounting treatment of its joint arrangements.

IFRS 13 *Fair Value Measurement* provides a comprehensive standard for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing an asset or liability under current market conditions, including risk assumptions. Laricina's adoption of IFRS 13 required no change in valuation techniques.

The adoption of these new accounting standards has had no impact on the recognition and measurement of the balances recorded in these condensed consolidated interim financial statements.

A number of new accounting standards and amendments to standards and interpretations are not yet effective for the period ended June 30, 2013 and were not applied in preparing the condensed consolidated interim financial statements for the second quarter.

The Company has reviewed the new standards and interpretations required for annual periods beginning January 1, 2014 and determined that International Accounting Standard 32 *Financial Instruments: Presentation* is relevant but not yet applicable to these condensed consolidated interim financial statements. The impact of this standard is not yet determined.

3. Changes in Accounting Policies (continued)

The Company has also reviewed the new standards and interpretations required for annual periods beginning January 1, 2015 and determined that IFRS 9 *Financial Instruments* is relevant but not yet applicable to these condensed consolidated interim financial statements. The impact of this standard is not yet determined.

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 has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date 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 and guaranteed investment certificates that may be redeemed 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 and the fair values approximate their carrying value due to the short-term nature of these instruments. The Company has not designated any financial instruments as available-for-sale.

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 June 30, 2013.

6. Exploration and Evaluation Assets

Cost	
Balance at December 31, 2012	892,023
Additions during the period	115,172
Dispositions during the period	(9,104)
Balance, June 30, 2013	**998,091**
Depreciation	
Balance, December 31, 2012	(17,669)
Depreciation for the period	(5,745)
Balance, June 30, 2013	**(23,414)**
Carrying amounts	
As at December 31, 2012	874,354
As at June 30, 2013	**974,677**

During the quarter ended June 30, 2013, the Company disposed of exploration and evaluation assets related to the Stony Mountain Pipeline with a carrying amount of $9.1 million for gross proceeds of $10.0 million ($9.9 million net of transaction costs). The proceeds include $3.0 million of conditional payments which have been recorded as a receivable. Subsequent to the disposition of these assets, Stony Mountain Pipeline Ltd. was wound-up.

7. 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, 2012	67,103	1,333,979
Performance share units exercised	44	858
Replacement options exercised	45	69
Stock options exercised	18	496
Balance, June 30, 2013	**67,210**	**1,335,402**

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, 2012	2,438	$ 0.05
Exercised	(45)	0.05
Outstanding, June 30, 2013	**2,393**	**$ 0.05**
Exercisable, June 30, 2013	**2,393**	**$ 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, 2012	1,977	$	27.76
Granted	433		28.50
Exercised	(18)		20.00
Forfeited	(201)		30.03
Outstanding, June 30, 2013	**2,191**	**$**	**27.76**
Exercisable, June 30, 2013	**968**	**$**	**25.89**

For the three and six month periods ended June 30, 2013, compensation cost of $1.2 million ($1.4 million in 2012) and $2.6 million ($2.2 million in 2012), respectively, has been recognized for options that have been granted. During the three and six month periods ended June 30, 2013, $0.5 million ($0.5 million in 2012) and $1.1 million ($0.9 million in 2012), respectively, was capitalized.

Performance share unit plan

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

	Number (*thousands*)		**Weighted Average Exercise Price**
Outstanding, December 31, 2012	796	$	0.01
Granted	279		0.01
Exercised	(44)		0.01
Forfeited	(99)		0.01
Outstanding, June 30, 2013	**932**	**$**	**0.01**
Exercisable, June 30, 2013	**335**	**$**	**0.01**

For the three and six month periods ended June 30, 2013, compensation cost of $1.2 million ($0.8 million in 2012) and $2.0 million ($2.5 million in 2012), respectively, has been recognized for PSUs that have been granted. For the three and six month periods ended June 30, 2013, $0.5 million ($0.3 million in 2012) and $0.9 million ($1.0 million in 2012) was capitalized, respectively.

7. Share Capital (continued)

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, 2012	145	$	31.20
Granted	29		28.50
Expired	(30)		35.00
Forfeited	(27)		30.13
Outstanding, June 30, 2013	**117**	**$**	**29.80**
Exercisable, June 30, 2013	**29**	**$**	**31.22**

All SARs were granted to employees directly involved in field activities. For the three and six month periods ended June 30, 2013, a recovery of $0.1 million and compensation cost of $0.1 million, respectively, were recorded (compensation cost of $0.1 million and $0.2 million, respectively, in 2012) and has been recognized for SARs that have been granted. At June 30, 2013, the Company recorded an accrued liability of $0.7 million ($0.6 million at December 31, 2012) for outstanding SARs. At June 30, 2013 and December 31, 2012, the Company had no obligation for SARs that had vested.

8. Loss and Comprehensive Loss per Share

Basic loss and comprehensive loss per share

The calculation of basic loss per share for the three and six month periods ended June 30, 2013 was based on the loss attributable to common shareholders of $9.8 million and $20.1 million ($8.6 million and $14.9 million in 2012), respectively, and a weighted average number of common shares outstanding during the three and six month periods ended June 30, 2013. The weighted average number of common shares outstanding was calculated as follows:

(thousands)	Three Months Ended June 30 **2013**	2012	Six Months Ended June 30 **2013**	2012
Issued common shares at beginning of period	**67,115**	64,928	**67,103**	64,211
Effect of common shares issued	**-**	-	**-**	527
Effect of PSUs exercised	**33**	22	**17**	14
Effect of replacement options exercised	**37**	-	**19**	-
Effect of options exercised	**5**	16	**9**	11
Effect of performance warrants exercised	**-**	138	**-**	66
Weighted average common shares outstanding (basic)	**67,190**	65,104	**67,148**	64,829

Diluted loss and comprehensive loss per share

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

The basic and diluted loss per share was $0.15 and $0.30 for the three and six month periods ended June 30, 2013, respectively, compared to a basic and diluted loss per share of $0.13 and $0.23 for the three and six month periods ended June 30, 2012, respectively.

9. Other income

Other income is comprised of third-party camp and road usage for the three and six month periods ended June 30, 2013 and the three and six month periods ended June 30, 2012.

Corporate Information

Senior Management

Glen C. Schmidt
President and CEO

James R. Hand
Senior Vice President Operations and COO

C. Dean Setoguchi
Senior Vice President and CFO

Derek A. Keller
Vice President Production

Karen E. Lillejord
Vice President Finance and Controller

David Safari
Vice President Facilities

Marla A. Van Gelder
Vice President Corporate Development

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Independent Investor

Ian D. Bruce [2, 4]
Independent Investor

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

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

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

Gordon J. Kerr [2, 4]
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.

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