LARICINA
ENERGY LTD.

2016 Third Quarter Interim Report

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Management's Discussion and Analysis

This Management's Discussion and Analysis (**MD&A**) of the financial results of Laricina Energy Ltd. (**Laricina** or the **Company**) for the period ended September 30, 2016 and dated November 14, 2016 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2016 and September 30, 2015 (the **interim financial statements**), and the audited consolidated financial statements and the notes thereto as at and for the year ended December 31, 2015 (the **annual financial statements**) and MD&A contained in the Company's annual report for 2015. The financial information contained in this MD&A is presented in thousands of Canadian dollars except as otherwise noted and was derived from the interim financial statements prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board.

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

Business Overview

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

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

The Company's current focus is on preserving the integrity and value of the base assets and on exploring alternatives to potentially resume development of its oil sands properties and opportunities to engage in other oil and gas activities.

Significant Events for the Three and Nine Months Ended September 30, 2016

At December 31, 2014, Laricina did not meet the minimum average daily bitumen production volume covenant for the fourth quarter of 2014 as set out in the indenture dated March 20, 2014, as supplemented by the first supplemental indenture dated as of November 30, 2015 (collectively, the **Indenture**) governing the $150.0 million of 11.5 percent senior secured notes (variously described over the course of their history as the **Initial Notes, Amended Notes** or **Continuing Notes**) issued thereunder, which caused such notes and payment-in-kind notes (the **PIK Notes**), also issued under that Indenture in lieu of cash payments of interest and reimbursable costs of the lender, (collectively the **Notes**) to become payable on demand at the option of the sole lender (the **Noteholder**).

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

The Company has paid in full all accounts in respect of its CCAA proceedings. At the time of the final court order, Laricina was required to set aside a reserve of $1.8 million against which the payment of the remaining $0.8 million unpaid proven claims would be drawn and an outstanding disputed claim of $1.0 million could be drawn. As of the date of this MD&A, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve and, accordingly, the reserve funds remaining have been released.

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

The completion of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements. The executive officers so affected have the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. The maximum liability to which the Company is exposed in this regard is $2.1 million. If any rights are exercised under the employment agreements, settlement is expected to conclude in the first quarter of 2017 as a result of an extension to the original specified date.

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

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

Summary Quarterly Financial Information

For the	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Total assets	**473,858**	729,146	**473,858**	729,146
Working capital (deficiency)	**25,961**	(56,341)	**25,961**	(56,341)
Cash capital expenditures (recovery)(1)	**(292)**	394	**(809)**	(4,920)
Bitumen blend sales revenue	**-**	791	**-**	4,540
Finance and other income	**1,921**	2,972	**6,612**	10,088
Net loss and comprehensive loss	**7,410**	464,293	**25,505**	517,438
Loss per share – Basic and diluted	**0.01**	6.65	**0.04**	7.42

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

Total assets

Total assets at September 30, 2016 were lower than total assets at September 30, 2015 by $255.3 million primarily as a result of the $198.2 million impairment loss associated with exploration and evaluation (**E&E**) assets and intangible assets recognized in the fourth quarter of 2015, the $20.9 million cash repayment of the Notes in the fourth quarter of 2015, debt service costs in the fourth quarter of 2015 and working capital funding.

Working capital

Working capital as at September 30, 2016 was higher than working capital as at September 30, 2015 predominantly due to the reclassification of the Continuing Notes and PIK Notes to non-current liabilities at December 31, 2015. This was partially offset by lower cash and restricted cash balances as at September 30, 2016 compared to the corresponding balances as at September 30, 2015 and the current portion of Continuing Notes and PIK Notes payable recognized in the second and third quarters of 2016.

Cash capital expenditures (recovery)

Cash capital expenditures were minimal for the first nine months of 2016 as operations are suspended at the Germain CDP and Saleski pilot. During the first quarter of 2016, the Canada Revenue Agency approved the 2012 and 2013 Scientific Research and Experimental Development (**SR&ED**) tax credit claims. As a result, $0.4 million of the $0.8 million refundable portion of the Alberta tax credit claim has been recorded as a cash capital recovery, reducing E&E assets accordingly. The Company received the cash refund from the Government of Alberta on October 28, 2016.

During the second quarter of 2015, the Company received approval from the Government of Alberta of its $7.8 million claim for compensation in relation to the cancellation of leases under the Urban Development Sub-region (**UDSR**). The UDSR is a designated area of land surrounding Fort McMurray, Alberta created for future urban expansion and certain portions of the Company's Conn Creek and Poplar Creek properties were impacted. The compensation approximated the carrying value of the leases that were cancelled and payment was received in December 2015. Partially offsetting the cash capital recovery in each of the three and nine-month periods ended September 30, 2015 were capital expenditures primarily related to the completion of 80.0 percent of the detailed engineering and design for Saleski Phase 1 and the acquisition of 1.1 square-kilometres of four-dimensional seismic at the Saleski pilot.

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

Bitumen blend sales revenue

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

Finance and other income

Finance income and other income results fluctuate each period because of the average funds held on deposit and variable third-party use of the camps and the Chip Lake access road, respectively. Finance income in the nine months ended September 30, 2015 also included $2.8 million of accrued interest relating to the reimbursement of expenditures associated with the UDSR claim for which payment was received in December 2015. Details of these changes are discussed in the Corporate Results section of this MD&A.

Net loss and comprehensive loss

The net loss and comprehensive loss for the three-month and nine-month periods ended September 30, 2016 were lower than the same periods in 2015, a result which stemmed primarily from an impairment loss of $330.4 million and a loss on substantial modification of the notes of $118.4 million under the Settlement Agreement during the third quarter of 2015. The remaining change was mostly due to the suspension of operations at the Germain CDP and Saleski pilot in 2015 and has led to lower costs in virtually all categories compared to the same periods in 2015. One exception was costs incurred in the second quarter of 2016 following the cancellation of a point-of-delivery power substation and transmission line project (the **Saleski Transmission Project**) by the Alberta Electric System Operator for which there was no corresponding cost in 2015. The other exception was operating costs for the three months ended September 30, 2015 which were partially offset by the receipt of $3.1 million of insurance proceeds. Further discussion of the net loss and comprehensive loss for each of these periods is described in the Corporate Results section of this MD&A.

Results of Operations

	Three months ended September 30		**Nine months ended September 30**	
For the	**2016**	2015	**2016**	2015
Bitumen blend sales revenue	**-**	791	**-**	4,540
Royalties expense (recovery)	**-**	15	**(2)**	49
Transportation and blending expenses	**-**	586	-	3,365
Operating expenses	**3,079**	2,373	**7,801**	19,982

Bitumen blend sales revenue

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

For the *(barrels)*	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Saleski pilot bitumen production volumes	**-**	18,534	**-**	64,163
Germain CDP bitumen production volumes	**-**	-	**-**	36,473
Bitumen production volumes	**-**	18,534	**-**	100,636
Bitumen blend sales volumes	**-**	24,455	**-**	135,032

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

For the	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
Average realized sales price per barrel (Cdn $/barrel)	**$ -**	$ 32.34	**$ -**	$ 33.62
West Texas Intermediate (**WTI**) (United States $/barrel)	**$ 44.94**	$ 46.43	**$ 41.33**	$ 51.00
WTI (Cdn $/barrel)	**$ 58.66**	$ 60.75	**$ 54.43**	$ 64.07
Western Canadian Select (Cdn $/barrel)	**$ 41.04**	$ 43.29	**$ 36.32**	$ 47.90

Royalties

Crown royalties are paid on bitumen sales volumes from the Saleski pilot and the Germain CDP based on applied royalty rates determined by the Government of Alberta. In the first quarter of 2016, the Company received a small credit from the Government of Alberta to reconcile actual 2015 royalty costs owing to amounts paid. Royalties will not be incurred in 2016 unless operations resume at the Saleski pilot and/or Germain CDP.

Transportation and blending expenses

Transportation and blending expenses include the cost of diluent purchased for blending with the produced bitumen and the cost of transporting the bitumen blend sales volumes to sales terminals. Transportation and blending expenses will not be incurred in 2016 unless operations resume at the Saleski pilot and/or Germain CDP.

Operating expenses

The Company suspended operations at the Germain CDP in the first quarter of 2015 and at the Saleski pilot in the third quarter of 2015. Consequently, operating costs for the three-month and nine-month periods ended September 30, 2016 mainly consisted of costs associated with the use of Laricina's camps by third parties, maintenance of the Chip Lake access road and costs related to securing and maintaining the integrity of the assets at the Germain CDP and Saleski pilot while operations are suspended. In the third quarter of 2016, the Company also incurred a $0.9 million cost with a third-party power provider to defer by two years an increase to the power load at the Germain CDP for which there was no corresponding charge in 2015.

Operating expenses during the three months and nine months ended September 30, 2015 included the foregoing but were higher for the nine months ended because the Saleski pilot was operating throughout the majority of the first three quarters of 2015 and the Germain CDP was operating for a portion of the first quarter before operations were suspended. Partially offsetting operating expenses in the three-month and nine-month periods ended September 30, 2015, was the receipt of $3.1 million and $5.1 million, respectively, of insurance proceeds, net of deductions, compensating the Company for certain costs incurred and losses sustained in relation to a third-party natural gas pipeline break at the Germain CDP in the fourth quarter of 2013.

Operating costs are expected to be lower in 2016 as compared to 2015 because of the suspension of operations at the Saleski pilot and Germain CDP.

Summary Corporate Results

	Three months ended September 30		**Nine months ended September 30**	
For the	**2016**	2015	**2016**	2015
Other income	**1,855**	2,699	**6,284**	6,105
General and administrative expenses, net	**2,019**	5,595	**9,299**	19,075
Contract cancellation costs	**-**	-	**2,689**	-
Depreciation and amortization	**1,685**	3,298	**3,745**	15,986
Impairment loss	**-**	330,396	**-**	330,396
Finance income	**66**	273	**328**	3,983
Finance expense	**2,490**	5,587	**8,292**	16,341
Loss on substantial modification of notes	**-**	118,353	**-**	118,353
Reorganization expense	**-**	1,803	**163**	8,376
Net loss and comprehensive loss	**7,410**	464,293	**25,505**	517,438

Other income

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

Other income declined by $0.8 million for the three months ended September 30, 2016 compared to the same period in 2015 as a result of decreased third-party use of Laricina’s road. However, higher third-party use of Laricina’s camps during the first quarter of 2016 more than offset the lower road revenues experienced to date in 2016 and led to a $0.2 million increase in other income for the nine-month period ended September 30, 2016 compared to the corresponding period in 2015.

General and administrative expenses

	Three months ended September 30		**Nine months ended September 30**	
For the	**2016**	2015	**2016**	2015
General and administrative expenses, gross	**2,019**	5,781	**7,154**	19,431
Share-based compensation costs (recovery)	**-**	1,067	**2,145**	(100)
Capitalized cost recovery	**-**	(1,253)	**-**	(256)
General and administrative expenses, net	**2,019**	5,595	**9,299**	19,075

Beginning in the first quarter of 2015 and over the balance of that year, the Company took various measures to decrease general and administrative costs including the suspension of employee salary increases and performance-based bonus programs, a 90.0 percent reduction in the number of employees and a similar level of curtailment to consulting services. As a result, general and administrative costs for three and nine months ended September 30, 2016 consisted of essential services only and reflected 16 employees and a small complement of consultants to steward and operate the business. Also included in general and administrative expenses for the first quarter of 2016 was a $1.2 million provision for a change of estimate. In the first and third quarters of 2015, the Company incurred gross severance costs of $5.4 million of which $4.2 million was included in general and administrative expenses and the remainder reflected in operating expenses. In April 2015, a court order under the CCAA proceedings approved the use of a key employee retention plan (the **KERP**) for certain remaining employees. The KERP provided $2.3 million of retention payments to certain employees at the earlier of involuntary termination or December 31, 2015. At September 30, 2015, the Company had paid $0.8 million of the KERP and had accrued a further $0.8 million. Of these amounts, $0.5 million and $0.3 million, respectively, for the three months and nine months ended September 30, 2015 had been classified to operating expenses.

Laricina's share-based compensation consists of costs associated with stock options and PSUs granted to directors, officers, employees of, and providers of services to the Company. The Company applies the fair value method for stock options and PSUs based on the estimated fair value of the stock options or PSUs on the grant date using the Black-Scholes pricing model. Share-based compensation costs are recognized over the vesting period of the award. As previously described in the Significant Events for the Three and Nine Months Ended September 30, 2016 section of this MD&A, accelerated vesting of all unvested stock options and PSUs occurred on February 5, 2016. Consequently, share-based compensation costs were fully expensed and no additional expense will be recognized until new stock options and PSUs are granted.

There was a recovery of share-based compensation costs for the nine-month period ended September 30, 2015 primarily due to the reduction in the number of employees and the resulting forfeitures of unvested stock options and PSUs in the first and third quarters of 2015. Partially offsetting this recovery was share-based compensation costs incurred in the second and third quarters of 2015.

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

Contract cancellation costs

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

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

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

Depreciation and amortization

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

Depreciation and amortization in 2016 consists of the continuing depreciation associated with property, plant and equipment (**PP&E**) and amortization of certain intangible assets.

Impairment loss

At September 30, 2015, the Company identified indications of impairment for all cash generating units (**CGU**s) due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. During the three-month and nine-month periods ended September 30, 2015, the Company recorded an impairment loss of $330.4 million. This impairment was comprised of $58.4 million, $251.0 million, $6.0 million and $15.0 million related to the Saleski CGU, Germain CGU, Burnt Lakes CGU and Other CGU, respectively. This resulted in $300.2 million of impairment related to E&E assets and $30.2 million related to intangible assets.

As at September 30, 2016, the Company performed an assessment of whether any impairment indicators existed and concluded that there have been no new developments to date in 2016 to suggest that the carrying values of E&E assets, PP&E and intangible assets at September 30, 2016 need to be impaired further than what has already been reflected in the impairment loss recorded during the year ended December 31, 2015.

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

Finance income

Finance income for the first nine months of 2016 and 2015 primarily consisted of interest earned on cash, restricted cash and short-term investments. Finance income for the three and nine-month periods ended September 30, 2015 was higher than the corresponding periods in 2016 by $0.2 million and $3.7 million, respectively, because of higher cash balances on deposit combined with the effect of higher interest rates applied to those funds. Finance income in the second quarter of 2015 also included $2.8 million of accrued interest relating to the reimbursement of expenditures associated with the UDSR claim.

Finance expense

Finance expense for the three and nine-month periods ended September 30, 2016 and September 30, 2015 consisted of interest on the Notes, accretion for the site restoration provision, changes in fair value upon re-measurement of the liability on the 28.8 million warrants (**Consent Fee Warrants**) issued to the Noteholder in conjunction with the completion of the Settlement Transaction, and accretion associated with the amortized cost of the Continuing Notes. Refer to note 13 to the interim financial statements for a detailed composition of finance expense.

Finance expense for the three and nine-month periods ended September 30, 2016 was lower by $3.1 million and $8.0 million, respectively, compared to the same periods in 2015 principally due to the reduced Notes balance upon which interest is payable and lower amortized costs of the Continuing Notes in third quarter 2016, partially offset by the changes in fair value upon re-measurement of the Consent Fee Warrants liability.

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

Loss on substantial modification of senior secured notes

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

Reorganization expense

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

On February 1, 2016, the Company exited from the protection under the CCAA and, as a result, the costs stemming from the CCAA proceedings ceased.

Net loss and comprehensive loss

Net loss and comprehensive loss for the three months and nine months ended September 30, 2016 was $7.4 million and $25.5 million, respectively, compared to $464.3 million and $517.4 million for the respective corresponding periods of 2015. The lower net loss and comprehensive loss in 2016 was primarily the result of an impairment loss of $330.4 million and a loss on substantial modification of the notes of $118.4 million under the Settlement Agreement, both recorded in the third quarter of 2015. Further contributing to the lower net loss and comprehensive loss in 2016 was lower operating costs, transportation and blending expenses and depreciation and amortization because of the suspension of the Germain CDP and Saleski pilot in 2015. The remaining change stemmed from lower general and administrative costs which were attributable to fewer employees in 2016 and severance costs incurred in the first and third quarters of 2015 for which there was no corresponding costs in 2016, decreased reorganization costs as the Company exited from the protection under the CCAA on February 1, 2016, and lower interest expense associated with the reduced Continuing Notes principal outstanding. These decreases were partially offset by having no bitumen blend sales revenue for 2016 as both projects were suspended during 2015, the contract cancellation costs associated with the Saleski Transmission Project in the second quarter of 2016, insurance proceeds received in the second and third quarters of 2015, lower finance income as described above and increased finance expense associated with the changes in fair value upon re-measurement of the Consent Fee Warrants liability.

Capital Investment

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

	Three months ended September 30		**Nine months ended September 30**	
For the	**2016**	2015	**2016**	2015
Exploration and evaluation assets:				
Saleski	**-**	344	**(517)**	2,340
Other	**(186)**	47	**(186)**	(7,842)
Cash expenditures (recovery) on E&E	**(186)**	391	**(703)**	(5,502)
Cash expenditures (recovery) on PP&E	**(106)**	3	**(106)**	91
Cash expenditures on capitalized general and administrative expenses	**-**	-	**-**	491
Total cash capital expenditures (recovery)	**(292)**	394	**(809)**	(4,920)
Non-cash capital expenditures and provisions(1)	**467**	1,994	**3,722**	680
Total capital expenditures (recovery)	**175**	2,388	**2,913**	(4,240)

(1) Non-cash capital expenditures include non-cash capitalized general and administrative costs and changes in provisions for site restoration.

Saleski exploration and evaluation assets

During the third quarter of 2015, the Company suspended operations at the Saleski pilot in an effort to conserve capital and preserve the value of the assets. Laricina reached approximately 80.0 percent completion of the engineering and design for Saleski Phase 1 before it was decided to defer any further project development late in the first quarter of 2015. As a result of these events, capital activity for the three-month and nine-month periods ended September 30, 2016 was minimal. The cash recovery for the nine-month period ended September 30, 2016 was primarily the result of the Company's recognition of the refundable portion of the Alberta tax credit for the 2012 and 2013 SR&ED tax credit claims. Of the $0.8 million refundable portion, $0.4 million was applicable to capitalized amounts. The Company received the cash refund from the Government of Alberta on October 28, 2016. The remaining balance of the cash recovery was for a nominal sale of a non-essential spare part and joint venture audit adjustments to prior year capital amounts.

In the first nine months of 2015, capital expenditures primarily consisted of the 80.0 percent completion of the engineering and design for Saleski Phase 1 which was partially offset by the Company's recognition of the refundable portion of the Alberta tax credit for the 2010 and 2011 SR&ED tax credit claims. Of the $0.8 million refundable portion, $0.6 million was applicable to capitalized amounts. The cash refund was received on February 4, 2016.

Laricina has had no exploration expenditures to date in 2016. The exploration expenditures for the same period in 2015 at Saleski included the acquisition of 1.1 square-kilometres of four-dimensional seismic which was completed early in the second quarter.

Germain exploration and evaluation assets

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

Other exploration and evaluation assets

Other exploration and evaluation assets capital costs generally relate to the ongoing maintenance of Laricina's remaining oil sands properties. During the third quarter of 2016, the cash recovery of $0.2 million related to the Enhanced Solvent Extraction Incorporating Electromagnetic (**ESEIEH**) heating project. Other exploration and evaluation assets cash recovery for the three months and nine months ended September 30, 2015 was primarily related to the $7.8 million UDSR claim.

Property, plant and equipment

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

Cash expenditures on capitalized general and administrative expenses

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

Non-cash capital expenditures

Non-cash capital expenditures during the three and nine months ended September 30, 2016 and September 30, 2015 consisted largely of the change in rate associated with the provision for future site restoration. In the first nine months of 2015, non-cash capital expenditures also included the recovery of previously capitalized non-cash share-based payments.

Intangible Assets

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

On January 1, 2015, the Company ceased recapitalization of depreciation for the Germain CDP as the recoverable amount of the Germain cash generating unit approximates its carrying value. The Company ceased recapitalization at the Saleski pilot on September 1, 2015, concurrent with the commencement of the suspension of operations.

At September 30, 2015, an impairment loss of $30.2 million relating to the recapitalization of certain components of the Saleski pilot was recognized.

Selected Quarterly Information

(thousands of dollars, except per share amounts)	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**	**Q2 2015**	**Q1 2015**	**Q4 2014**
Working capital (deficiency)	**25,961**	30,386	41,091	43,798	(56,341)	(30,414)	(27,370)	3,899
Cash capital expenditures (recovery)	**(292)**	(62)	(455)	818	394	(8,194)	2,880	7,824
Bitumen blend sales revenue	**-**	-	-	(10)	791	1,952	1,797	5,702
Finance income	**66**	173	89	90	273	3,165	545	746
Other income	**1,855**	810	3,619	2,556	2,699	1,579	1,827	4,124
Net loss and comprehensive loss	**7,410**	8,754	9,342	198,203	464,293	15,453	37,692	284,353
Loss per share - Basic and diluted	**$ 0.01**	$ 0.02	$ 0.02	$ 0.82	$ 6.65	$ 0.22	$ 0.54	$ 4.08

Working capital

Positive working capital beginning in the fourth quarter of 2015 was primarily the result of the reclassification of the Continuing Notes and PIK Notes from current liabilities to non-current liabilities following the Noteholder's waiver of all defaults and events of default. Laricina had previously reclassified the Initial Notes and PIK Notes to current liabilities on December 31, 2014 due to the failure to meet the minimum average daily bitumen production volumes covenant in the fourth quarter of 2014. The earlier quarters in 2014 reflected the impact of the proceeds of the issuance of the Initial Notes in the first quarter of 2014. The cash and restricted cash balances are decreasing over time, thereby reducing the overall positive working capital.

Cash capital expenditures (recovery)

In the first quarter of 2016, the Company recorded a recovery related to the refundable portion of the 2012 and 2013 Alberta SR&ED tax credit claims. The recovery in the third quarter of 2016 was related to the ESEIEH heating project and the disposition of excess vehicles, furniture and equipment.

Beginning in early 2015, cash capital expenditures were minimal, and will continue to be so, as the Company suspended operations at both facilities and deferred further advancement of Saleski Phase 1. During the second quarter of 2015, Laricina recorded a cash capital recovery for the claim filed with the Government of Alberta in relation to the UDSR claim and the refundable portion of the 2010 and 2011 Alberta SR&ED tax credit claims.

Capital expenditures during 2014 predominantly consisted of the advancement of Saleski Phase 1 before development activity was suspended late in the first quarter of 2015. Remaining capital expenditures in 2014 were for the conversion of well-pairs to production at Germain.

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

Bitumen blend sales revenue

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

Initial production commenced at the Germain CDP beginning in the first quarter of 2014. Production ramped-up at Germain throughout 2014 as well-pairs were converted to production and steam-assisted gravity drainage commenced in the third quarter. There was a decline in the average realized sales price beginning in the fourth quarter of 2014 due to decreases in the underlying benchmark pricing. The remaining change was a result of the experimental nature of the Saleski pilot and the alternating cycles between steam injection and bitumen production.

Finance income

Finance income began decreasing in the third quarter of 2014 because of the lower average funds held on deposit. There was an increase during the second quarter of 2015 related to the interest income associated with the UDSR claim. Finance income increased in the second quarter of 2014 due to interest earned on the proceeds from the issuance of the Initial Notes and warrants late in the first quarter of 2014. The small increase to finance income in the second quarter of 2016 was the result of interest on overdue receivables.

Other income

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

Net loss and comprehensive loss

The net loss and comprehensive loss for the first three quarters of 2016 is described in the Summary Corporate Results section of this MD&A. Higher net loss and comprehensive loss in the last two quarters of 2015 and the fourth quarter of 2014 was principally the result of impairment losses recorded in each of these quarters. In the third quarter of 2015, Laricina also recognized a loss on substantial modification of the Notes under the Settlement Agreement. Beginning in the first quarter of 2015, the following activities were initiated which served to increase the net loss: deferred income tax recoveries were no longer recognized, additional costs were incurred relative to reorganization activities and interest expense associated with the Notes increased due to a rate increase of 200 basis points. Net loss and comprehensive loss increased beginning in the first quarter of 2014 as a result of the start-up of the Germain CDP and the associated recognition of operating expenses and depreciation. These costs subsequently declined and offset the aforementioned increases following the suspension of operations at the Germain CDP and the Saleski pilot in the first and third quarters of 2015, respectively.

Liquidity and Capital Resources

As at September 30, 2016, Laricina had capital resources of $26.0 million.

Cash, restricted cash and short-term investments	31,833
Non-cash working capital deficit	(5,872)
Capital resources available	**25,961**

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

For the three-month and nine-month periods ended September 30 2016, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current positive cash and short-term investments position of $31.8 million and PIK Note capability, the Company expects to be able to discharge its trade and other payables, remaining unpaid proven claims, contractual obligations and any outstanding debt for the next twelve months. Laricina has adopted a scaled-back business plan to enable the Company to continue for the foreseeable future while exploring alternatives and developing a future business plan. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond twelve months' time that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover, when operations will resume at the Saleski pilot and Germain CDP and whether these facilities, once operational, will generate sufficient bitumen blend sales revenue to fully recover their operating costs. Given these uncertainties and future outlays, Laricina will require additional financing to fund future working capital deficiencies and repayment of the Continuing Notes and PIK Notes in March 2018. As such, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

Cash, restricted cash and short-term investments

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

Continuing Notes and PIK Notes

The principal amount of the Continuing Notes outstanding at September 30, 2016 is $33.5 million. The Continuing Notes are carried at their amortized cost of $25.8 million on the condensed consolidated statements of financial position as at September 30, 2016. The difference between the amortized cost and principal balance will be recorded as a finance expense over the period until the maturity of the Continuing Notes. The Continuing Notes have a maturity date of March 20, 2018 and bear interest at a rate of 13.5 percent per year.

PIK Notes may be issued in lieu of cash payment of interest and reimbursable costs of the Noteholder. The PIK Notes are due on March 20, 2018 and bear an interest rate of 13.5 percent per annum. The principal amount of the PIK Notes outstanding at September 30, 2016 is $3.8 million.

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

Credit facility

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

As of the date of this MD&A, the Company had letters of credit issued totalling $8.8 million under this credit facility and no amount has been drawn. The letters of credit are issued to suppliers of utilities to support the development and reactivation of Saleski and Germain and to the Alberta Energy Regulator to secure the Company's licensee liability rating requirements as operator. The letters of credit of $3.0 million, $5.3 million, $0.2 million, $0.3 million and a nominal amount are expected to be renewed on July 28, 2017, August 18, 2017, August 31, 2017, December 5, 2016, and August 31, 2017, respectively.

Contractual obligations

The Company had the following cash-settled contractual obligations at November 14, 2016:

	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Interest payments on notes(1)(2)	404	4,414	1,469	-	-	-	6,287
Repayment of notes(1)(2)	7,492	-	29,825	-	-	-	37,317
Operating leases	63	180	20	-	-	-	263
Other contractual obligations	95	646	712	1,070	1,835	15,101	19,459
Total contractual obligations	**8,054**	**5,240**	**32,026**	**1,070**	**1,835**	**15,101**	**63,326**

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

(2) If the notes principal balance changes before the maturity date or the timing of the notes repayment is altered, the interest payable will be affected.

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

2016 Outlook

The Company's focus and scope of activities continue to be directed to the preservation of the integrity and value of the existing asset base, to building financial capacity for future development activities and to meet future obligations and to the assessment of opportunities and prospects for growth. This approach provides a foundation that enables the Company to continue for the foreseeable future while exploring alternatives and developing a future business plan.

As a result of the restructuring process, and compounded by slowing economic growth and an uncertain environment going forward, Laricina has been operating under a progressively scaled-back business plan with an emphasis on cost control for nearly two years. Continuing and stable third-party use of Laricina's camps and road remain as projected, the net revenues of which contribute to addressing our financial challenges.

Outstanding Share Data

At November 14, 2016, share capital consisted of the following:

(thousands)	
Common shares	576,336
Stock options	650
Performance share units	57
Consent Fee Warrants	28,804
Total	**605,847**

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

Non-IFRS Financial Measures

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

Critical Accounting Estimates and Judgments and Policies

A discussion of the Company's significant accounting policies and of the nature and basis of judgments, critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses are described in notes 2 and 3 of the Company's annual financial statements. The Company has applied these same judgments, accounting estimates, assumptions and policies consistently throughout all periods presented.

Risk Management

The current risk factors influencing the Company remain substantially unchanged from those detailed in the Risk Management section of the MD&A included in the Company's annual report for 2015.

Advisory on Forward-Looking Statements

This MD&A and interim report contain certain forward-looking statements relating to, without limitation, the Company's business and its intentions, plans, expectations, anticipated financial performance or condition including statements relating to the Company's expectations on its ability to discharge liabilities and continue as a going concern in the Liquidity and Capital Resources section of this MD&A. Forward-looking statements may include, but are not limited to, statements relating to the review of the Company's business plans, the preservation and future development of the Company's assets; opportunities and alternatives for additional capital and repayment of indebtedness and other obligations; and other statements which are not historical facts. Forward-looking statements typically contain words such as "plan", "expect", "estimate", "intend", "believe", "anticipate", "project", "forecast", "potential" or other similar words suggesting future outcomes and statements that actions, events or conditions "may", "would", "could", "should" or "will" be taken or occur in the future. The reader is cautioned not to place undue reliance on any forward-looking statements as there can be no assurance that the plans, intentions or expectation upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur including those specific factors outlined in the Liquidity and Capital Resources section of this MD&A relating to the Company's ability to continue as a going concern. Although the Company's management believes that the expectations represented by such forward-looking statements are reasonable as of November 14, 2016, there can be no assurance that such expectations will prove to be correct and, accordingly, that actual results will be consistent with the forward-looking statements. The risks and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this interim report include those outlined in the Risk Management section of the MD&A included in the Company's annual report for 2015 and contained in other disclosure documents or otherwise provided by the Company. The actual results, performance or achievements of the Company could differ materially from those expressed in or implied by forward-looking statements in this MD&A and interim report, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefit Laricina will derive. Unless required by law, the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements in this MD&A and interim report are expressly qualified by this advisory and disclaimer.

Condensed Consolidated Statements of Financial Position

Unaudited

As at *(thousands of Canadian dollars)*	Note	**September 30 2016**	December 31 2015
Assets			
Current assets			
Cash		**21,783**	29,631
Restricted cash	10	**10,000**	10,000
Short-term investments		**50**	50
Trade and other receivables		**4,213**	8,196
Prepaid expenses and deposits	3	**517**	1,440
		36,563	49,317
Non-current assets			
Exploration and evaluation assets	4,5	**358,688**	355,717
Property, plant and equipment	6	**68,600**	71,828
Intangible assets	4,7	**10,007**	10,476
		437,295	438,021
Total assets		**473,858**	487,338
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		**3,110**	5,519
Current portion of continuing notes and payment-in-kind notes	9	**7,492**	-
		10,602	5,519
Non-current liabilities			
Continuing notes and payment-in-kind notes	9	**22,092**	21,840
Consent fee warrants	11	**2,247**	2,135
Site restoration provision	8	**52,577**	48,148
Total liabilities		**87,518**	77,642
Shareholders' equity			
Share capital	11	**1,415,823**	1,411,835
Contributed surplus		**170,827**	172,666
Deficit		**(1,200,310)**	(1,174,805)
Total shareholders' equity		**386,340**	409,696
Total liabilities and shareholders' equity		**473,858**	487,338

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

CCAA proceedings (note 1) and going concern basis of presentation (note 2)
Contractual obligations (note 17)
Subsequent events (notes 5 and 10)

Condensed Consolidated Statements of Net Loss and Comprehensive Loss

Unaudited

For the *(thousands of Canadian dollars)*	Note	Three months ended September 30 **2016**	 2015	Nine months ended September 30 **2016**	 2015
Revenue					
Bitumen blend sales		**-**	791	**-**	4,540
Royalties		**-**	(15)	**2**	(49)
		-	776	**2**	4,491
Other income		**1,855**	2,699	**6,284**	6,105
		1,855	3,475	**6,286**	10,596
Expenses					
Transportation and blending		**-**	586	**-**	3,365
Operating	12	**3,079**	2,373	**7,801**	19,982
Pre-exploration		**58**	50	**130**	143
General and administrative		**2,019**	5,595	**9,299**	19,075
Contract cancellation costs	14	**-**	-	**2,689**	-
Depreciation and amortization	5,6,7	**1,685**	3,298	**3,745**	15,986
Impairment loss	4	**-**	330,396	**-**	330,396
		6,841	342,298	**23,664**	388,947
Net loss from operating activities		**(4,986)**	(338,823)	**(17,378)**	(378,351)
Finance income		**66**	273	**328**	3,983
Finance expense	13	**(2,490)**	(5,587)	**(8,292)**	(16,341)
Loss on substantial modification of notes	9	**-**	(118,353)	**-**	(118,353)
Net finance expense		**(2,424)**	(123,667)	**(7,964)**	(130,711)
Reorganization expense	3	**-**	(1,803)	**(163)**	(8,376)
Net loss and comprehensive loss		**(7,410)**	(464,293)	**(25,505)**	(517,438)
Loss per common share	15				
Basic and diluted		**$ 0.01**	$ 6.65	**$ 0.04**	$ 7.42

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)	Note	**Share capital**	**Contributed surplus**	**Deficit**	**Total equity**
Balance as at December 31, 2014		1,342,679	57,926	(459,164)	941,441
Net loss and comprehensive loss		-	-	(517,438)	(517,438)
Share-based net recoveries	11	-	(101)	-	(101)
Performance share units exercised		7,987	(7,983)	-	4
Equity component of notes		-	109,384	-	109,384
Balance as at September 30, 2015		1,350,666	159,226	(976,602)	533,290
Net loss and comprehensive loss		-	-	(198,203)	(198,203)
Shares issued, net of share issuance costs		60,468	-	-	60,468
Share-based net recoveries		-	(2,387)	-	(2,387)
Performance share units exercised		701	(701)	-	-
Equity component of notes		-	16,528	-	16,528
Balance as at December 31, 2015		1,411,835	172,666	(1,174,805)	409,696
Net loss and comprehensive loss		-	-	(25,505)	(25,505)
Share-based payments	11	-	2,146	-	2,146
Performance share units exercised	11	3,988	(3,985)	-	3
Balance as at September 30, 2016		**1,415,823**	**170,827**	**(1,200,310)**	**386,340**

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

Condensed Consolidated Statements of Cash Flows

Unaudited

For the nine months ended September 30 *(thousands of Canadian dollars)*	Note	**2016**	2015
Cash flows from (used in) operating activities			
Net loss and comprehensive loss		**(25,505)**	(517,438)
Adjustments for:			
Depreciation and amortization	5,6,7	**3,745**	15,986
Equity-settled share-based payments	11	**2,146**	135
Loss on disposal of exploration and evaluation assets	5	**15**	-
Gain on disposal of property, plant and equipment		**(106)**	
Non-cash reimbursable costs to the Noteholder	9	**216**	-
Impairment loss on exploration and evaluation assets and intangible assets	4	**-**	330,396
Loss on substantial modification of notes	9	**-**	118,353
Non-cash finance expense	13	**8,330**	3,523
		(11,159)	(49,045)
Net change in non-cash operating working capital	16	**68**	(299)
Net cash used in operating activities		**(11,091)**	(49,344)
Cash flows from (used in) investing activities			
Exploration and evaluation assets			
Expenditures	5	**(1)**	(3,444)
Recoveries	5	**629**	8,364
Proceeds from disposal	5	**75**	-
Proceeds from disposal of property, plant and equipment		**106**	-
Change in restricted cash		**-**	3,123
Change in short-term investments		**-**	50,950
Net change in non-cash investing working capital	16	**2,447**	(17,635)
Net cash from investing activities		**3,256**	41,358
Cash flows from (used in) financing activities			
Proceeds from the issuance of common shares	11	**3**	4
Repayment of notes	9	**-**	(47,927)
Net change in non-cash financing working capital	16	**(16)**	-
Net cash used in financing activities		**(13)**	(47,923)
Net decrease in cash		**(7,848)**	(55,909)
Cash, beginning of period		**29,631**	113,902
Cash, end of period		**21,783**	57,993

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

1. Corporate Information

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

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

Following the March 16, 2015 receipt of a demand for payment of all the outstanding indebtedness by the sole lender (the **Noteholder**) and a notice of intention to enforce security against the assets of the Company, Laricina and its wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., filed for and were granted creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the **CCAA**) pursuant to an order of the Court of Queen's Bench of Alberta, Judicial Centre of Calgary (the **Court**) dated March 30, 2015 with effect as of March 26, 2015. On June 28, 2015, Laricina and the Noteholder agreed upon a non-binding term sheet setting out the terms of a settlement arrangement (the **Settlement Agreement**) relating to the repayment of the outstanding indebtedness to the Noteholder. That term sheet resulted in the parties entering into the binding Settlement Agreement on July 20, 2015, and the Court, in the Company's CCAA proceedings, approved that Settlement Agreement on August 5, 2015. The Company was recapitalized on November 30, 2015 pursuant to the Settlement Agreement and the completion of the settlement transaction (the **Settlement Transaction**). Laricina continued to be protected from creditors for the balance of 2015 and exited from the protection under the CCAA effective February 1, 2016. Total assets as at January 31, 2016 were $485.4 million and there has been no material change for any one account since then. The CCAA proceedings, Settlement Agreement and Settlement Transaction are further described in note 1 to the audited consolidated financial statements as at and for the year ended December 31, 2015 (the **annual financial statements**).

The Company has paid in full all accounts in respect of its CCAA proceedings. At the time of the final court order, Laricina was required to set aside a reserve of $1.8 million against which the payment of the remaining $0.8 million unpaid proven claims approved under a claims process (the **Claims Process**) would be drawn and an outstanding disputed claim of $1.0 million could be drawn. As at September 30, 2016, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve and, accordingly, the reserve funds remaining have been released.

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

The completion of the Settlement Transaction led to a change of control under the provisions of certain of the executive employment agreements. The executive officers so affected have the right to terminate their employment at any time prior to a specified date and receive the entitlements set out in their respective employment agreement. The maximum liability to which the Company is exposed in this regard is $2.1 million. If any rights are exercised under the employment agreements, settlement is expected to conclude in the first quarter of 2017 as a result of an extension to the original specified date.

The Company's current focus is on preserving the integrity and value of the base assets and on exploring alternatives to potentially resume development of its oil sands properties and opportunities to engage in other oil and gas activities.

2. Basis of Preparation

Statement of compliance

These condensed consolidated interim financial statements of the Company and its wholly-owned subsidiaries, Laricina GP Holding Ltd. and 1276158 Alberta Inc., as at September 30, 2016 and for the three-month and nine-month periods ended September 30, 2016 and 2015 (the **interim financial statements**) have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* and the International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**).

These interim financial statements should be read in conjunction with the annual financial statements which were prepared in accordance with IFRS and are included in the Company's annual report for 2015.

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

These interim financial statements were approved for release to shareholders by the board of directors on November 14, 2016.

Significant accounting policies

The accounting policies applied by the Company and its subsidiaries in these interim financial statements are the same as those applied by the Company and its subsidiaries in the annual financial statements.

New accounting standards and interpretations not yet adopted

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

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

2. Basis of Preparation (continued)

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

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

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

Basis of presentation

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

For the three-month and nine-month periods ended September 30, 2016, the going concern assessment considered the Company's financial capacity and liquidity constraints as they relate to funding operations and meeting the Company's obligations in the upcoming year without an additional capital injection. Based on the current positive cash and short-term investments position of $31.8 million and the Company's ability to issue payment-in-kind notes (**PIK Notes**) in lieu of cash payments of interest and reimbursable costs of the Noteholder, Laricina expects to be able to discharge its trade and other payables, remaining unpaid proven claims, contractual obligations and any outstanding debt for the next twelve months. Laricina has adopted a scaled-back business plan to enable the Company to continue for the foreseeable future while exploring alternatives and developing a future business plan. On this basis, the Company concluded that a going concern basis of presentation is appropriate.

Notwithstanding this conclusion, management has determined a material uncertainty exists based on events and conditions beyond twelve months' time that may cast significant doubt upon the Company's ability to continue as a going concern. Persistent low commodity prices have created and will continue to impose constraints on raising capital to fund future operating and investing activities. It is uncertain when commodity prices will recover, when operations will resume at the Saleski pilot and Germain CDP and whether these facilities, once operational, will generate sufficient bitumen blend sales revenue to fully recover their operating costs. Given these uncertainties and future outlays, Laricina will require additional financing to fund future working capital deficiencies and repayment of the debt obligations maturing in March 2018. As such, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern exists.

Basis of measurement

These interim financial statements were prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities which are measured at fair value. The notes (variously described over the course of their history as the **Initial Notes, Amended Notes** or **Continuing Notes**) issued under the indenture dated March 20, 2014, as supplemented by the first supplemental indenture dated as of November 30, 2015 (collectively, the **Indenture**) are carried at amortized cost which is their approximate fair value. There have been no changes in the quarter to the assumptions underlying this fair value. The Consent Fee Warrants (as defined in note 11) are re-measured each period to determine the fair value and any changes to the carrying value are reflected in profit or loss. The methods used to measure fair value are discussed in note 3 to the annual financial statements.

Functional and presentation currency

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

Use of estimates and judgments

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

3. Retainers and Reorganization Expense

As at September 30, 2016, there are no professional advisor retainers relating to the CCAA proceedings described in note 1 outstanding ($0.5 million at December 31, 2015) and all funds have been returned to the Company.

As described in note 1, a $1.8 million reserve relating to the Claims Process was established at the time of the final court order in respect of the CCAA proceedings and included in prepaid expenses and deposits. As at September 30, 2016, an immaterial amount of unpaid proven claims remain and the disputed claim has been settled. The Company is no longer obligated to maintain a reserve and, accordingly, the $0.4 million of reserve funds remaining have been reclassified to cash.

Reorganization expense is comprised of legal, monitoring and professional advisory fees associated with the CCAA proceedings as well as the Noteholder's costs pursuant to a requirement in the Indenture to reimburse the reasonable costs of the Noteholder. For the three-month and nine-month periods ended September 30, 2016, a nil amount and $0.2 million, respectively, of reorganization expense were incurred. For the corresponding periods in 2015, $1.8 million and $8.4 million, respectively, were incurred.

4. Impairment Loss

At September 30, 2015, the Company had indications of impairment on all cash generating units (**CGU**s) due to declining commodity prices, reduced availability of financing and the expectation that such availability may not improve in the near term. As a result, Laricina recorded an impairment loss of $330.4 million in the third quarter of 2015. The impairment loss was comprised of the following amounts related to each asset category and the respective CGU:

4. Impairment Loss (continued)

CGU	E&E assets	Intangible assets	Total
Saleski	28,194	30,206	58,400
Germain	250,996	-	250,996
Burnt Lakes	6,000	-	6,000
Other	15,000	-	15,000
Impairment loss	**300,190**	**30,206**	**330,396**

As at September 30, 2016, the Company performed an assessment of whether any impairment indicators existed and concluded that there have been no new developments to date in 2016 to suggest that the carrying values of exploration and evaluation (**E&E**) assets, property, plant and equipment (**PP&E**) and intangible assets at September 30, 2016 need to be impaired further than what has already been reflected in the impairment loss recorded during the year ended December 31, 2015.

For purposes of determining whether impairment of E&E assets, PP&E, intangible assets and other long-term assets exists, management exercises their judgment in estimating the fair value less costs to dispose (**FVLCD**).

The FVLCD for each CGU was determined using transaction values related to prior land and resource sales of similar assets, stage of development and corporate liquidity and capital resources. Such transaction values with respect to resources sales were multiplied by the independently evaluated reserves and best estimate of contingent resources for the CGUs. In addition, management's estimates of recoverable resources were also used in the calculation of the transaction values. Fair value measurements are classified as one of three levels, which are described in note 3 of the annual financial statements. These FVLCD determinations are level 3 measures.

5. Exploration and Evaluation Assets

E&E assets consist of the Company's exploration projects which are pending the determination of technical feasibility and commercial viability. Additions represent the Company's share of the costs incurred for E&E assets during the year. There were no amounts transferred to PP&E during 2015 or the first nine months of 2016.

Cost	
Balance as at December 31, 2014	1,127,157
Additions	4,219
Transfer of inventory	4,398
Recoveries	(8,364)
Balance as at December 31, 2015	1,127,410
Additions	3,738
Disposals	(90)
Recoveries	(629)
Balance as at September 30, 2016	**1,130,429**

Accumulated depreciation	
Balance as at December 31, 2014	(256,457)
Depreciation	(16,839)
Impairment loss	(498,397)
Balance as at December 31, 2015	(771,693)
Depreciation	(48)
Balance as at September 30, 2016	**(771,741)**
Carrying amounts	
As at December 31, 2015	355,717
As at September 30, 2016	**358,688**

On January 29, 2016, the Canada Revenue Agency (the **CRA**) approved the 2012 and 2013 Scientific Research and Experimental Development (**SR&ED**) tax credit claims. As a result, $0.4 million of the $0.8 million refundable portion of the Alberta tax credit was recognized as a capital recovery and reduced E&E assets accordingly. The Company received the cash refund from the Government of Alberta on October 28, 2016.

In the second quarter of 2015, the CRA approved the majority of the 2010 and 2011 SR&ED tax credit claims. As a result, $0.6 million of the $0.8 million refundable portion of the Alberta tax credit was recognized as a capital recovery and reduced E&E assets accordingly. The cash payment and associated interest was received on February 4, 2016.

On July 25, 2013, the Government of Alberta announced an Urban Development Sub-region (the **UDSR**) of more than 55,000 acres of Crown land for urban expansion in the Fort McMurray area. This extended over portions of Laricina's Conn Creek and Poplar Creek properties for which the Government of Alberta's communicated its intention to cancel these leases under the *Mines and Minerals Act*. In the third quarter of 2015, the Company recorded a capital recovery of $7.8 million representing the value of the claims the Government of Alberta had determined compensated for expenditures associated with the acquisition and development of the mineral leases subject to cancellation, which approximated their carrying value. In relation with the UDSR claims, the Company also recorded $2.8 million of interest income. The cash payment for the claims and associated interest was received on December 8, 2015 and the corresponding leases were cancelled.

6. Property, Plant and Equipment

	Facilities and other equipment	Corporate assets	Total
Cost			
Balance as at December 31, 2014	85,067	10,416	95,483
Additions	-	91	91
Balance as at December 31, 2015	85,067	10,507	95,574
Disposals	-	(32)	(32)
Balance as at September 30, 2016	**85,067**	**10,475**	**95,542**
Accumulated depreciation			
Balance as at December 31, 2014	(11,182)	(7,469)	(18,651)
Depreciation	(3,403)	(1,692)	(5,095)
Balance as at December 31, 2015	(14,585)	(9,161)	(23,746)
Disposals	-	32	32
Depreciation	(2,552)	(676)	(3,228)
Balance as at September 30, 2016	**(17,137)**	**(9,805)**	**(26,942)**
Carrying amounts			
As at December 31, 2015	70,482	1,346	71,828
As at September 30, 2016	**67,930**	**670**	**68,600**

7. Intangible Assets

	Infrastructure expansion	Depreciation of E&E assets	Total
Cost			
Balance as at December 31, 2014	12,509	40,509	53,018
Additions	-	5,542	5,542
Balance as at December 31, 2015	12,509	46,051	58,560
Balance as at September 30, 2016	**12,509**	**46,051**	**58,560**
Accumulated amortization			
Balance as at December 31, 2014	(1,408)	(15,845)	(17,253)
Amortization	(625)	-	(625)
Impairment loss	-	(30,206)	(30,206)
Balance as at December 31, 2015	(2,033)	(46,051)	(48,084)
Amortization	(469)	-	(469)
Balance as at September 30, 2016	**(2,502)**	**(46,051)**	**(48,553)**
Carrying amounts			
As at December 31, 2015	10,476	-	10,476
As at September 30, 2016	**10,007**	**-**	**10,007**

8. Site Restoration Provision

Balance as at December 31, 2015	48,148
Revisions (change in discount rate)	3,738
Accretion (note 13)	691
Balance as at September 30, 2016	**52,577**

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

The Company has estimated the net present value of these site restoration obligations to be $52.6 million as at September 30, 2016 ($48.1 million at December 31, 2015) based on an undiscounted total future liability of $81.6 million ($81.6 million at December 31, 2015). These obligations are expected to be settled over the next 27 years with the majority of the costs to be incurred between 2025 and 2040. The discount factor, being the risk-free rate related to the liability, was 1.7 percent at September 30, 2016 (2.2 percent at December 31, 2015).

9. Continuing Notes and Payment-in-Kind Notes

As at	**September 30 2016**	December 31 2015
Continuing notes		
Current	**3,668**	-
Non-current	**22,092**	21,806
	25,760	21,806
Payment-in-kind notes		
Current	**3,824**	-
Non-current	**-**	34
	3,824	34
	29,584	21,840

The principal amount of the Continuing Notes outstanding at September 30, 2016 is $33.5 million ($33.5 million at December 31, 2015). The Continuing Notes are carried at their amortized cost of $25.8 million ($21.8 million at December 31, 2015) on the condensed consolidated statements of financial position. The difference between the amortized cost and principal balance will be recorded as a finance expense over the period until the maturity of the Continuing Notes.

The principal amount of the PIK Notes outstanding at September 30, 2016 is $3.8 million ($34 thousand at December 31, 2015). The PIK Notes issued are in lieu of cash payments of interest and reimbursable costs of the Noteholder. Both the Continuing Notes and PIK Notes are due on March 20, 2018 and bear an interest rate of 13.5 percent per annum.

On June 22, 2016, certain events contemplated under the Settlement Agreement concluded thereby obligating the Company to pay $6.1 million to the Noteholder. On August 31, 2016, net proceeds of $1.4 million of certain receivables described in the Settlement Agreement were received by the Company and designated as payable to

9. Continuing Notes and Payment-in-Kind Notes (continued)

the Noteholder. When payment is made, it will be first applied to any principal outstanding under the PIK Notes and then the remaining balance directed to a partial repayment of principal outstanding under the Continuing Notes.

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

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

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

10. Credit Facility

Laricina has a demand credit facility of $10.0 million ($10.0 million at December 31, 2015) with a major Canadian chartered bank which is secured by an equivalent cash deposit which has been classified as restricted cash on the condensed consolidated statements of financial position. Amounts drawn can take the form of prime rate-based loans, bankers' acceptances, LIBOR loans or letters of credit and will bear interest at the prime rate, bankers' acceptances rates or at LIBOR plus a spread above the reference rate between 1.0 percent and 2.0 percent per annum. As at September 30, 2016, the Company had issued letters of credit totalling $7.1 million ($6.3 million at December 31, 2015) under this credit facility and no cash amount had been drawn.

Subsequent to September 30, 2016, the Company issued an amendment to an existing letter of credit to increase the amount by $1.7 million. As at November 14, 2016, the Company had issued letters of credit totalling $8.8 million.

11. Share Capital

Authorized

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

Issued

	Number of shares (thousands)	Amount
Common Shares		
Balance as at December 31, 2014	69,732	1,342,679
Performance share units exercised	391	8,688
Issuance of shares	505,960	60,715
Share issuance costs, net of tax	-	(247)
Balance as at December 31, 2015	576,083	1,411,835
Performance share units exercised	253	3,988
Balance as at September 30, 2016	**576,336**	**1,415,823**

Stock option plan

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

	Number of options (thousands)	Weighted average exercise price
Outstanding, December 31, 2015	729	$ 26.60
Forfeited	(75)	27.48
Expired	(4)	32.50
Outstanding and exercisable, September 30, 2016	**650**	**$ 26.47**

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

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

11. Share Capital (continued)

For the	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
General and administrative expense (recovery)				
Share-based payments	**-**	319	**594**	1,315
Share-based forfeitures	**-**	(742)	**-**	(2,075)
Reversal of option expiries	**-**	2,523	**-**	2,523
	-	2,100	**594**	1,763
Exploration and evaluation assets				
Share-based forfeitures	**-**	151	**-**	624
Reversal of option expiries	**-**	(1,680)	**-**	(1,680)
	-	(1,529)	**594**	(1,056)
Net compensation expense	**-**	571	**594**	707

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

Performance share unit plan

The Company has a performance share unit plan under which directors, officers, employees of, and providers of services to the Company are eligible to receive grants of performance share units (**PSU**s). PSUs have an exercise price of $0.01 per PSU and vest on dates determined by the board of directors at the time of grant. For each PSU exercised, the holder will receive one common share.

	Number of PSUs (thousands)		**Weighted Average Exercise Price**
Outstanding, December 31, 2015	503	$	0.01
Forfeited	(186)		0.01
Expired	(7)		0.01
Exercised	(253)		0.01
Outstanding and exercisable, September 30, 2016	**57**	**$**	**0.01**

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

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

For the	Three months ended September 30 **2016**	2015	Nine months ended September 30 **2016**	2015
General and administrative expense (recovery)				
Share-based payments	**-**	669	**1,552**	2,640
Share-based forfeitures	**-**	(1,702)	**-**	(4,503)
	-	(1,033)	**1,552**	(1,863)
Exploration and evaluation assets				
Share-based forfeitures	**-**	276	**-**	1,291
Net compensation expense (recovery)	**-**	(757)	**1,552**	(572)

Warrants

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

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

	Number of warrants (thousands)	**Weighted Average Exercise Price**
Outstanding and exercisable, December 31, 2015	28,804	$ 0.25
Outstanding and exercisable, September 30, 2016	**28,804**	**$ 0.25**

A finance expense recovery of $0.3 million and a finance expense of $0.1 million were recorded to reflect the change in fair value of the Consent Fee Warrants for the respective three-month and nine-month periods ended September 30, 2016. For the corresponding periods in 2015, a finance expense recovery of $2.6 million was recorded to reflect the change in fair value of the warrants contemplated under the Settlement Agreement.

12. Operating Expense

In the three-month and nine-month periods ended September 30, 2015, the Company received $3.1 million and $5.1 million, respectively, of insurance proceeds, net of deductions, compensating the Company for certain costs incurred and losses sustained in relation to a third-party natural gas pipeline break at the Germain CDP in the fourth quarter of 2013. These payments were reflected as an offset to operating expenses.

13. Finance Expense

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

	Three months ended September 30		**Nine months ended September 30**	
For the	**2016**	2015	**2016**	2015
Interest on Continuing Notes and PIK Notes	**1,232**	4,193	**3,536**	14,438
Accretion of site restoration obligation	**219**	261	**691**	770
Re-measurement of warrants (note 11)	**(289)**	(2,551)	**111**	(2,551)
Accretion of amortized cost of Continuing Notes (note 9)	**1,328**	3,684	**3,954**	3,684
	2,490	5,587	**8,292**	16,341

14. Contract Cancellation Costs

In the second quarter of 2016, the Alberta Electric System Operator denied ATCO Electric Ltd. (**ATCO Electric**), as transmission facilities owner and on behalf of Laricina as operator of the Saleski Phase 1 project, the request to extend the power permit and license approval in-service date beyond July 1, 2016 which was originally granted in April 2013 for a new point-of-delivery power substation and transmission line (the **Saleski Transmission Project**), and hence has cancelled the Saleski Transmission Project. Due to the denial, Laricina and its joint venture partner were contractually obligated to reimburse $4.5 million of costs ATCO Electric incurred in respect of the Saleski Transmission Project.

15. Loss per Share

Basic loss per share

The calculations of basic loss per share for the three and nine-month periods ended September 30, 2016 was based on the loss attributable to common shareholders of $7.4 million and $25.5 million ($464.3 million and $517.4 million for the corresponding periods in 2015), respectively, and the weighted-average number of common shares outstanding during the corresponding periods, calculated as follows:

For the	**Three months ended September 30**		**Nine months ended September 30**	
(thousands)	**2016**	2015	**2016**	2015
Issued common shares at beginning of period	**576,301**	69,738	**576,083**	69,732
Effect of performance share units exercised	**25**	122	**156**	46
Weighted-average common shares outstanding (basic)	**576,326**	69,860	**576,239**	69,778

Diluted loss per share

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

The basic and diluted loss per share was $0.01 and $0.04 for the respective three and nine-month periods ended September 30, 2016, compared to a basic and diluted loss per share of $6.65 and $7.42 for the corresponding periods in 2015.

16. Supplemental Cash Flow Information

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

As at September 30	2016	2015
Operating activities		
Trade and other receivables	**1,440**	(1,768)
Prepaid expenses and deposits	**996**	(1,564)
Inventories	**-**	825
Trade and other payables	**(2,368)**	2,208
Net change in non-cash operating working capital	**68**	(299)
Investing activities		
Trade and other receivables	**2,543**	(9,405)
Prepaid expenses and deposits	**(72)**	110
Inventories	**-**	78
Trade and other payables	**(24)**	(8,418)
Net change in non-cash investing working capital	**2,447**	(17,635)
Financing activities		
Trade and other payables	**(16)**	-
Net change in non-cash financing working capital	**(16)**	-

The following table discloses the cash interest paid and cash interest received for the nine months ended September 30:

	2016	2015
Interest paid	**-**	13,043
Interest received	**340**	1,024

17. Contractual Obligations

The Company had the following cash-settled contractual obligations at September 30, 2016:

	2016	2017	2018	2019	2020	Thereafter	Total
Interest payments on notes(1)(2)	832	4,414	1,469	-	-	-	6,715
Repayment of notes(1)(2)	7,492	-	29,825	-	-	-	37,317
Operating leases	144	136	20	-	-	-	300
Other contractual obligations	160	646	712	1,070	1,835	15,101	19,524
Total contractual obligations	**8,628**	**5,196**	**32,026**	**1,070**	**1,835**	**15,101**	**63,856**

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

(2) If the notes principal balance changes before the maturity date or the timing of the notes repayment is altered, the interest payable will be affected.

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

Corporate Information

Officers

Glen C. Schmidt
President and CEO

Noralee M. Bradley
Corporate Secretary

Derek A. Keller
Vice President Production

Diane T. Koenig
Vice President Finance and Controller

Marla A. Van Gelder
Vice President Corporate Development

Directors

Ian D. Bruce
Independent Investor

Andrew Darling
Managing Director, Head of Investment Risk and Finance
Canada Pension Plan Investment Board

S. Barry Jackson
Chairman, TransCanada Corporation

Jennifer K. Kennedy
Partner, Norton Rose Fulbright Canada LLP

Kazim Tahir-Kheli
Senior Principal, Private Investments
Canada Pension Plan Investment Board

Auditors

Deloitte LLP

Bankers

Canadian Imperial Bank of Commerce

Reservoir Engineers

GLJ Petroleum Consultants Ltd.

Registrar and Transfer Agent

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