# MANAGEMENT'S DISCUSSION AND ANALYSIS
# Date: November 13, 2014

**Quarterly Report – For the Three and Nine Months Ended September 30, 2014**

**Highlights**

Marquee Energy Ltd. ("Marquee Energy" or the "Company") is pleased to report its financial and operating results for the three and nine month periods ended September 30, 2014. Highlights include:

- Average production volumes of 5,143 boe/d (42% oil and NGLs) in the quarter are 140% higher than Q3-2013.
- Achieved significant growth in funds flow from operations in the third quarter of 2014. Funds flow from operations increased 11% to $10.3 million ($0.09 per share), compared to $9.3 million ($0.08 per share) in Q2-2014, and $3.1 million ($0.06 per share) in Q3-2013.
- Closed the sale of 425 boe/d of non-core oil and gas interests for proceeds of $15.2 million, including $14.0 million for assets in the Pembina area and plus an additional $1.2 million for assets in Fox Creek, Alberta.
- Reduced field operating costs in the third quarter of 2014 to less than $15/boe from $23.51/boe in the same quarter of 2013 and $19.66/boe in the second quarter of 2014.
- Entered into a syndicated credit facility agreement with two Canadian chartered banks which provides total credit availability of $95 million, comprised of a revolving and operating facility of up to $80 million, plus an acquisition facility of up to $15 million. The Company's net debt at the end of the third quarter was $54.7 million, 26% lower than Q4-2013.

**Corporate Update:**

During the third quarter, Marquee invested $23.4 million in capital expenditures, primarily in its core area at Michichi. Capital expenditure highlights for the quarter include:

- Drilling, completion and tie-in operations on six horizontal oil wells at Michichi
- Construction of a multi-well oil battery in the Michichi area
- Drilling, completion and tie-in operations on one vertical and one horizontal well at Lloydminster
- Launched a recompletion and work-over program currently underway in the greater Michichi/Drumheller area
- Acquisition of 3D seismic surveys at Michichi and Lloydminster

Marquee's operating costs continue to improve throughout 2014, attributable to the acquisition of owned and operated infrastructure from transactions completed earlier in the year, as well as meaningful increases in low-cost volumes at Michichi. The Company completed the construction of its

first multi-well battery at Michichi, which is expected to enable further capital savings and operating cost reductions for Marquee.

Marquee is currently producing in excess of 5,300 boe/d (based on field estimates), net of 425 boe/d of non-core, gas-weighted assets sold in the third quarter of 2014. Currently, the Company has five wells in various stages of completion and tie-in operations at Michichi, and five (four net) wells being drilled or equipped at Lloydminster.

*Michichi Area:*

During the third quarter, the Company drilled six horizontal oil wells (100% success rate), five of which are currently on production. Subsequent to the end of the quarter, four additional wells were drilled to complete Marquee's 14-well program at Michichi for 2014.

The success of the program at Michichi is the result of a strong technical focus applied to the selection of drilling locations, refinement of Marquee's drilling and completion program, and efficient production operations. Marquee currently utilizes 3D seismic for the selection of all of its drilling locations at Michichi, where it is in the process of acquiring a new 176 sq. km 3D survey that will complete coverage over the Company's focus area.

Microseismic studies have been completed on two wells at Michichi in 2014. The results will be used to optimize completion design and to evaluate the potential for downspacing. All wells from Marquee's 2014 drilling program were drilled from multi-well pads, which resulted in reduced equipping and tie-in costs and lower operating expenditures.

*Lloydminster*

The Company drilled one vertical heavy oil well, and its first horizontal heavy oil well at Lloydminster during the quarter. Subsequent to the quarter, Marquee drilled two successful vertical wells in the area. Additional drilling is underway for the first of a three-well (two net) horizontal drilling program, which is scheduled for the fourth quarter of 2014.

Drilling results at Lloydminster have exceeded expectations for 2014. Results from the Company's first horizontal well, and from delineation wells realized during a previous exploration discovery, have had a significant impact on the expansion of Marquee's drilling inventory in the area. Marquee continues to add to its land holdings in the area through acquisitions, farm-ins and land sale opportunities.

**OUTLOOK**

Marquee expects that its strategy to apply strong technical focus and prudent financial management to its drilling program and operations processes will continue to produce significant cash flow and production per share growth. The strength of the Company's balance sheet and its ongoing commodity hedging program, continues to mitigate Marquee's exposure to volatile commodity prices. The Company

has hedged approximately 50% of its forecast fourth quarter volumes, and approximately 22% of its forecast volumes for the first half of 2015. Going forward, Marquee will carefully manage capital expenditures in order to maintain prudent debt levels.

## Financial and Operational Highlights

*(unaudited)*

| | Three months ended September 30 | | Nine Months ended September 30 | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Financial** *(000's except per share and per boe amounts)* | | | | |
| Oil and natural gas sales [1] | **$ 23,644** | $ 12,489 | **$ 70,845** | $ 35,201 |
| Funds flow from operations | **$ 10,334** | $ 3,080 | **$ 26,428** | $ 10,529 |
| Per share - basic and diluted | **$ 0.09** | $ 0.06 | **$ 0.25** | $ 0.19 |
| Per boe | **$ 21.84** | $ 15.65 | **$ 20.43** | $ 17.34 |
| Net income (loss) | **$ (13,254)** | $ (1,527) | **$ (15,104)** | $ (3,627) |
| Per share - basic and diluted | **$ (0.11)** | $ (0.03) | **$ (0.14)** | $ (0.07) |
| Capital expenditures | **$ 23,190** | $ 8,484 | **$ 40,361** | $ 18,617 |
| Asset acquisitions including non-cash consideration | **$ 205** | $ - | **$ 13,048** | $ - |
| Dispositions | **$ (15,199)** | $ (2,363) | **$ (15,728)** | $ (3,149) |
| Net debt [2] | | | **$ 54,739** | $ 48,776 |
| Total Assets | | | **$ 276,951** | $ 163,418 |
| Weighted average basic and diluted shares outstanding | **120,338** | 54,469 | **107,173** | 54,657 |
| **Operational** | | | | |
| Net wells drilled | **8.0** | - | **14.0** | 2.1 |
| Daily sales volumes | | | | |
| Oil *(bbls per day)* | **1,379** | 722 | **1,346** | 795 |
| Heavy Oil *(bbls per day)* | **531** | 480 | **523** | 515 |
| NGL's *(bbls per day)* | **253** | 96 | **210** | 78 |
| Gas *(mcf per day)* | **17,881** | 5,045 | **15,960** | 5,014 |
| Total *(boe per day)* | **5,143** | 2,139 | **4,739** | 2,224 |
| % Oil and NGL's | **42%** | 61% | **44%** | 62% |
| Average realized prices | | | | |
| Oil ($/bbl) | **$ 89.71** | $ 100.77 | **$ 94.79** | $ 89.21 |
| Heavy Oil ($/bbl) | **$ 78.47** | $ 89.88 | **$ 77.71** | $ 69.04 |
| NGL's ($/bbl) | **$ 50.45** | $ 61.88 | **$ 59.19** | $ 61.62 |
| Gas ($/mcf) | **$ 4.41** | $ 2.65 | **$ 4.94** | $ 3.30 |
| Netbacks | | | | |
| Revenue ($/boe) | **$ 49.97** | $ 63.46 | **$ 54.76** | $ 57.98 |
| Royalties ($/boe) | **$ 6.54** | $ 7.43 | **$ 6.49** | $ 5.57 |
| Opex and transportation ($/boe) | **$ 14.90** | $ 23.51 | **$ 18.88** | $ 22.27 |
| Field operating netbacks | **$ 28.53** | $ 32.52 | **$ 29.39** | $ 30.14 |

(1) Before royalties.

(2) Net debt is calculated as currents assets less current liabilities, excluding commodity contracts and flow-through share premiums.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for Marquee Energy Ltd. ("Marquee", "we", "our" or the "Company") as at and for the three and nine month periods ending September 30, 2014. The MD&A should be read in conjunction with the Company's unaudited condensed interim Financial Statements and related notes for the three and nine month periods ended September 30, 2014, as well as the audited annual Consolidated Financial Statements and MD&A for the year ended December 31, 2013. The Company's condensed interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting within International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). All figures provided herein are reported in Canadian dollars. The reader should be aware that historical results are not necessarily indicative of future performance.

Additional information relating to Marquee, including the Company's Annual Information Form, is available on Sedar at www.sedar.com. Marquee is listed on the TSX Venture Exchange (TSX-V) under the symbol "MQL-V", and on the United States OTC Markets ("OTCQX") under the symbol "MQLQF".

**Non-GAAP Measures and Additional GAAP Measures**

The MD&A contains certain measures that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures and additional GAAP measures. Readers are cautioned that the MD&A should be read in conjunction with Marquee's disclosure under "Non-GAAP Measures", "Additional GAAP Measures" and "Forward-Looking Statements" included at the end of this MD&A.

**DESCRIPTION OF BUSINESS**

Marquee Energy Ltd. is a publicly traded, Calgary-based, growth oriented junior oil and natural gas company currently focused on high rate of return oil development and production. Marquee is committed to growing the company through exploitation of existing opportunities and continued consolidation within its core area at Michichi. Marquee's offices are located in Calgary, Alberta.

**Revenue**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Light Oil | **$ 11,381,551** | $ 6,693,511 | 70% | **$ 34,832,415** | $ 19,361,374 | 80% |
| Heavy Oil | **3,833,484** | 3,969,268 | -3% | **11,095,703** | 9,707,147 | 14% |
| NGLs | **1,174,390** | 546,547 | 115% | **3,393,385** | 1,312,109 | 159% |
| Natural gas | **7,254,174** | 1,231,336 | 489% | **21,523,323** | 4,513,348 | 377% |
| Sulphur | **-** | 48,467 | -100% | **-** | 307,304 | -100% |
| Total Revenue | **$ 23,643,599** | $ 12,489,129 | 89% | **$ 70,844,826** | $ 35,201,282 | 101% |

Total revenue in Q3-2014 increased to $23.6 million from $12.5 million in Q3-2013, an increase of 89%. For the nine month period ending September 30, 2014, revenue increased to $70.8 million from $35.2 million for the same period in 2013, an increase of 101%. The increased revenue in both the three and nine month periods is a result of higher production volumes from the asset acquisitions completed in Q4-2013 and Q1-2014 as noted below, combined with increased production from the Company's drilling program. The revenue increase from this production growth was offset by lower combined average realized commodity prices for both the current year three and nine month periods.

**Production**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| **Production by Product** | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Light Oil (bbls/d) | **1,379** | 722 | 91% | **1,346** | 795 | 69% |
| Heavy Oil (bbls/d) | **531** | 480 | 11% | **523** | 515 | 2% |
| NGLs (bbls/d) | **253** | 96 | 164% | **210** | 78 | 169% |
| Natural gas (mcf/d) | **17,881** | 5,045 | 254% | **15,960** | 5,014 | 218% |
| Total boe/d (6:1) | **5,143** | 2,139 | 140% | **4,739** | 2,224 | 113% |
| | | | | | | |
| Production split (%) | | | | | | |
| Crude oil and NGL | **42%** | 61% | | **44%** | 62% | |
| Natural gas | **58%** | 39% | | **56%** | 38% | |
| Total | **100%** | 100% | | **100%** | 100% | |

Production for the three months ended September 30, 2014, was 5,143 boe/d, an increase of 140% from 2,139 boe/d for the same period in 2013. For the nine month period ending September 30, 2014, production increased to 4,739 boe/d, a 113% increase from the same period in the prior year. Quarter over quarter and year to date production increases are a result of the drilling programs completed in the second half of 2013 and first and third quarters of 2014, together with production from the properties acquired from Sonde on December 31, 2013, and Paramount on March 6, 2014. The acquired production from the Sonde properties contributed an estimated 1,100 boe/d and the Paramount assets contributed an estimated 800 boe/d to the production increases noted above.

**Product Prices**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| **Benchmark prices** | | | | | | |
| WTI (US$/bbl) [(1)] | **$ 97.17** | $ 105.82 | -8% | **$ 99.61** | $ 98.14 | 1% |
| US$ / C$ foreign exchange rate | **$ 1.09** | $ 1.04 | 5% | **$ 1.08** | $ 1.02 | 6% |
| WTI (C$/BBL) | **$ 105.84** | $ 109.87 | -4% | **$ 107.89** | $ 100.44 | 7% |
| WCS Hardisty Cdn ($/bbl) | **$ 83.86** | $ 92.16 | -9% | **$ 85.99** | $ 77.39 | 11% |
| AECO natural gas ($/mcf) | **$ 3.81** | $ 2.43 | 57% | **$ 4.54** | $ 3.06 | 48% |
| **Average realized prices** | | | | | | |
| Light Oil ($/bbl) | **$ 89.71** | $ 100.77 | -11% | **$ 94.79** | $ 89.21 | 6% |
| Heavy Oil ($/bbl) | **$ 78.47** | $ 89.88 | -13% | **$ 77.71** | $ 69.04 | 13% |
| NGLs ($/bbl) | **$ 50.45** | $ 61.88 | -18% | **$ 59.19** | $ 61.62 | -4% |
| Natural gas ($/mcf) | **$ 4.41** | $ 2.65 | 66% | **$ 4.94** | $ 3.30 | 50% |
| Combined ($boe) | **$ 49.97** | $ 63.46 | -21% | **$ 54.76** | $ 57.98 | -6% |

(1) WTI represents the posting prices of West Texas Intermediate Oil.

**Royalties**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Royalties | **$ 3,095,787** | $ 1,462,749 | 112% | **$ 8,390,561** | $ 3,379,221 | 148% |
| As a percentage of revenue | **13%** | 12% | 8% | **12%** | 10% | 20% |
| Per boe (6:1) | **$ 6.54** | $ 7.43 | -12% | **$ 6.49** | $ 5.57 | 17% |

Royalties expense for the three months ended September 30, 2014 increased to $3.1 million compared to $1.5 million for the same period in 2013. The 112% increase was largely due to the higher revenue as a result of the new production and recent acquisitions. Royalties per BOE decreased 12% to $6.54 per BOE for the three months ended September 30, 2014 compared to the same period in 2013 as a result of an increase in the proportion of natural gas production. Natural gas has a lower royalty rate than oil and NGLs. For the nine month period ended September 30, 2014, royalties expense increased to $8.4 million, or 17% on a per BOE basis. These increases are a result of certain producing properties coming off royalty holiday and higher average royalty rates on crude oil and NGL revenues.

**Operating and Transportation Expense**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Operating Costs | **$ 5,521,299** | $ 3,768,588 | 47% | **$ 19,773,585** | $ 10,672,969 | 85% |
| Transportation Costs | **1,528,626** | 858,641 | 78% | **4,653,244** | 2,845,848 | 64% |
| | **$ 7,049,925** | $ 4,627,229 | 52% | **$ 24,426,829** | $ 13,518,817 | 81% |
| Per boe (6:1) | **$ 14.90** | $ 23.51 | -37% | **$ 18.88** | $ 22.27 | -15% |

Operating and transportation costs for the three months ended September 30, 2014 were $7.0 million or $14.90 per BOE compared to $4.6 million and $23.51 per BOE for the same period in 2013. For the nine month period ended September 30, 2014, operating and transportation costs were $24.4 million or $18.88 per BOE compared to $13.5 million or $22.27 per BOE for the same period in 2013. The increase in operating costs quarter over quarter and year over year were a result of the significant increases in production. The declines in operating and transportation costs per BOE were the result of efficiencies realized from infrastructure improvements at Michichi, optimization of resources from the Company's recent acquisitions, as well as increased production volumes.

**Field Operating Netback**

per boe

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Sales | **$ 49.97** | $ 63.46 | -21% | **$ 54.76** | $ 57.98 | -6% |
| Royalties | **(6.54)** | (7.43) | -12% | **$ (6.49)** | $ (5.57) | 17% |
| Opex & transportation costs | **(14.90)** | (23.51) | -37% | **$ (18.88)** | $ (22.27) | -15% |
| Field Operating Netback | **$ 28.53** | $ 32.52 | -12% | **$ 29.39** | $ 30.14 | -2% |

For the three months ended September 30, 2014, field operating netbacks decreased to $28.53 per BOE compared to $32.52 per BOE for the same period in 2013. The 12% decrease was mainly due to the Company's lower average realized product pricing, a decline that resulted from the higher natural gas weighting of the Company's production in 2014 compared to the prior period, and slightly higher royalties, offset by a significant reduction in operating and transportation costs. For the nine month period ending September 30, 2014, the field operating netback was $29.39 per BOE, a 2% decrease from the same period in the prior year. The reduction in average realized product prices was offset by the reduction in operating and transportation expense.

**General and Administrative (G&A) Expense**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| G&A | **$ 1,653,784** | $ 1,060,975 | 56% | **$ 4,946,223** | $ 3,706,176 | 33% |
| G&A - per boe (6:1) | **$ 3.50** | $ 5.39 | -35% | **$ 3.82** | $ 6.10 | -37% |

G&A costs for the three months ended September 30, 2014 increased by 56% to $1.7 million from $1.1 million incurred for the same period in 2013. The increase is a result of higher salary and consulting costs associated with the growth in the Company through drilling and recent acquisitions, in addition to bank facility renewal fees resulting from the new syndicated facility. On a BOE basis, G&A costs declined by 35% to $3.50 per BOE for the current quarter, compared to $5.39 per BOE in 2013. The decrease on a BOE basis is a result of the higher production volumes in 2014. For the nine month period G&A per boe decreased 37% to $3.82 per BOE, due to higher production volumes in 2014.

**Stock-based Compensation**

As at September 30, 2014, the Company had 10,137,349 stock options and 1,679,835 warrants outstanding. The options and warrants were issued at an average exercise price of $1.08 per option and $1.59 per warrant. Stock-based compensation expense of $825,582 (September 30, 2013 -$372,572) related to options has been recognized for the nine-month period ended September 30, 2014 with the offsetting amount recorded in contributed surplus. The expense increased from the same period in 2013 as a result of 7,140,000 new options being granted during the first nine months of 2014.

**Risk Management and Hedging Activities**

As at September 30, 2014, Marquee had the following commodity contracts outstanding with a fair value of $273,026 (December 31, 2013 – negative $951,692). The total realized loss on the risk management contracts for the three and nine months ended September 30, 2014 was $441,379 (2013 - $1,310,439) and $3,120,270 (2013 - $1,809,370), respectively.

| Type | Notional Volumes | Price | Index | Term |
|---|---|---|---|---|
| Swap | 2,000 GJs/day | CAD $3.50/GJ | AECO-5A | Apr.01, 2014 to Dec.31, 2014 |
| Swap | 400 bbl/day | CAD $96.00/bbl | WTI-NYMEX | Jul.01, 2014 to Dec.31, 2014 |
| Swap | 3,000 GJs/day | CAD $3.7525/GJ | AECO-5A | Jan.01, 2014 to Dec.31, 2014 |
| Swap | 400 bbl/day | CAD ($21.30)/bbl | WCS vs NGX and Net Energy Index | Feb.01, 2014 to Dec.31, 2014 |
| Put [1] | 4,000 GJs/day | CAD $4.00/GJ | AECO-7A | Mar. 01, 2014 to Dec. 31, 2014 |
| Swap | 1,500 GJs/day | CAD $4.28/GJ | AECO-5A | Mar. 01, 2014 to Dec. 31, 2014 |
| Swap | 500 bbl/day | CAD $104.90/bbl | WTI-NYMEX | Mar. 01, 2014 to Dec. 31, 2014 |
| Swap | 4,000 GJs/day | CAD $4.465/GJ | AECO-5A | Jan.01, 2015 to Mar.31, 2015 |
| Swap | 500 bbl/day | CAD $104.00/bbl | WTI-NYMEX | Jan.01, 2015 to Mar.31, 2015 |
| Swap | 250 bbl/day | CAD $103.00/bbl | WTI-NYMEX | Jan.01, 2015 to Jun.30, 2015 |
| Swap | 500 bbl/day | CAD $105.00/bbl | WTI-NYMEX | Apr.01, 2015 to Jun.30, 2015 |

(1) The put contract is subject to a monthly premium fee of approximately $32,000.

Subsequent to September 30, 2014, the Company entered into the following contract:

| Type | Notional Volumes | Price | Index | Term |
|---|---|---|---|---|
| Swap | 300 bbl/day | CAD ($20.70)/bbl | WCS vs NGX and Net Energy Index | Jan.01, 2015 to Mar. 31, 2015 |

**Finance expenses**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Accretion expense | **$ 399,199** | $ 88,722 | 350% | **$ 1,028,111** | $ 259,673 | 296% |
| Interest Expense | **893,807** | 627,851 | 42% | **2,698,496** | 1,823,541 | 48% |
| Finance expense | **$ 1,293,006** | $ 716,573 | 80% | **$ 3,726,607** | $ 2,083,214 | 79% |
| Per boe | **$ 2.73** | $ 3.64 | -25% | **$ 2.88** | $ 3.43 | -16% |

Finance expense increased to $1.3 million for the three months ended September 30, 2014 compared to $0.72 million for the same period in 2013. The increase in interest expense was attributable to higher average debt balances for the period ended September 30, 2014 compared to the September 30, 2013 period. In addition, increases in decommissioning obligations in the past year as a result of acquisitions have resulted in increased accretion expense, up 350% for the three month period ended September 30, 2014 compared to the same period in 2013. For the nine month period, finance expense has increased 79% in 2014 from 2013, a result of increased decommissioning obligations and bank debt, as previously mentioned. On a BOE basis, there was a 25% and 16% decrease for the three and nine month periods ending September 30, 2014, respectively. The per BOE decrease is a result of higher production in 2014 over 2013.

**Depletion and Depreciation**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Depletion and depreciation | **$ 8,750,805** | $ 4,378,487 | 100% | **$ 24,096,032** | $13,259,064 | 82% |
| Per boe | **$ 18.49** | $ 22.25 | -17% | **$ 18.62** | $ 21.84 | -15% |

The depletion rate is calculated on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the related reserves. Depletion expense increased in the three month period ended September 30, 2014 to $8.8 million from $4.4 million for the same period in 2013 due to higher production volumes; however on a per BOE basis there was a decrease of 17% as a result of more total reserves from the recent acquisitions. For the nine month period ended September 30, 2014, depletion and depreciation expense increased $10.8 million, an 82% increase from the same period in 2013; however, on a BOE basis there was a 15% decline as a result of more total reserves from the recent acquisitions.

**Taxes**

For the three month period ended September 30, 2014, the Company recorded a $4.2 million deferred tax recovery (2013 - $0.5 million recovery), while for the nine month period ended September 30, 2014 there was a $4.9 million recovery (2013 -$1.0 million recovery). The increase in the recovery from 2014

from 2013 is a result of the loss on sale of oil and gas assets recognized in the current period, the largest portion of which related to the sale of the Pembina assets which closed on September 30, 2014.

**The following tax pools are available to reduce future taxable income:**

*($ millions)*

| | **September 30, 2014** | December 31, 2013 |
|---|---|---|
| Undepreciated capital cost | **$ 29.6** | $ 27.0 |
| Canadian development expense | **50.8** | 38.1 |
| Canadian exploration expense [1] | **63.1** | 63.7 |
| Canadian oil and gas property expense | **33.4** | 30.7 |
| Non-capital loss carry forward | **47.4** | 62.7 |
| Share issue costs | **2.6** | 2.5 |
| Total | **$ 226.9** | $ 224.7 |

[1] Includes successored pools from Sonde acquisition. See note 3(ii) in the condensed interim financial statements for the three and nine months ended September 30, 2014.

**Exploration and Evaluation expenditures ("E&E")**

During the three month period ended September 30, 2014, the Company recorded $0.83 million of costs associated with expired mineral leases compared with $0.04 million for September 30, 2013. For the nine month period ended September 30, 2014, $2.3 million was expensed, a $1.8 million increase from the same period in the prior year. The increased expense is a result of timing of the lease expiries and the Company's plans to develop those areas.

**Funds flow from operations**

Funds flow from operations for Q3-2014 was $10.3 million or $0.09 per share compared to $3.1 million or $0.06 per share in Q3- 2013. For the nine month period ended September 30, 2014, funds flow from operations was $26.4 million, a 152% increase from the same period in 2013. The increase in funds flow from operations for the year to date period in 2014 was mainly attributed to increased production volumes and higher oil and natural gas sales for 2014 compared to the same period in 2013. Funds flow from operations is an additional-GAAP measure, which is defined under the heading Additional GAAP Measures.

**Loss on disposition of oil and natural gas interests**

For the three months ended September 30, 2014, the Company recorded a $20.1 million loss (2013-$0.4 million loss) on the sale of non-core oil and natural gas properties. On September 30, 2014, the Company disposed of its non-core, (gas weighted) asset Pembina oil and natural gas interests, including exploration and evaluation assets and decommissioning liabilities for proceeds of $14.0 million, less customary closing adjustments. The timing of the closing of this disposition resulted in the Company's $12.8 million cash position at September 30, 2014. The disposition will result in a 300 boe/d (75% natural gas) decline in production volumes. In addition, the Company closed two minor dispositions for

properties in Fox Creek, Alberta. For the nine month period ended September 30, 2014, the sale of non-core oil and natural gas properties resulted in a $19.4 million loss, compared to a gain of $0.1 million for the same period in the prior year.

**Net Income (Loss)**

Net loss for the three month period ended September 30, 2014, was $13.3 million ($0.11 per share, basic and diluted) compared to a net loss of $1.5 million ($0.03 per share, basic and diluted) for the same period in 2013. The increase to net loss is mainly attributable to the loss on sale of natural gas interests that resulted from closing the asset sale in Pembina on September 30, 2014. For the nine month period ended September 30, 2014, the Company recorded a net loss of $15.1 million compared to a loss of $3.6 million for the comparable period. The increase in net loss for the nine month period Q3-2014 was a result of the non-core disposition of oil and natural gas interests in the Pembina area completed at the end of the third quarter.

## Capital Expenditures

| Capital Expenditures *(1), (2)* | **Three months ended 30-Sep-14** | Three months ended 30-Sep-13 | **Nine months ended 30-Sep-14** | Nine months ended 30-Sep-13 |
|---|---|---|---|---|
| Land & lease | **$ 2,256,030** | $ 858,599 | **$ 2,552,160** | $ 1,584,637 |
| Drilling and completions | **15,658,269** | 6,517,168 | **27,014,373** | 11,355,230 |
| Equipment and facilities | **4,453,012** | 976,187 | **8,644,277** | 4,350,559 |
| Seismic | **636,110** | 14,909 | **1,496,843** | 857,809 |
| Acquisitions | **205,337** | - | **2,219,916** | - |
| Dispositions | **(15,199,277)** | (2,362,570) | **(15,728,046)** | (3,148,637) |
| Office and other | **186,984** | 117,614 | **652,912** | 468,923 |
| Total capital expenditures, net | **$ 8,196,465** | $ 6,121,907 | **$ 26,852,435** | $ 15,468,521 |

(1) Includes expenditures on exploration and evaluation assets as well as PP&E
(2) Excludes non-cash portion of Paramount acquisition in 2014

The Company drilled six gross (6.0 net) Michichi horizontal wells and 1.0 gross (1.0 net) vertical well and 1.0 gross (1.0 net) horizontal well in Lloydminster in the third quarter of 2014. For the nine month period ended September 30, 2014, the Company has drilled 10.0 gross (10.0 net) Michichi horizontal and 3.0 gross (3.0 net) Lloydminster vertical wells and 1.0 gross (1.0 net) Lloydminster horizontal well.

On March 6, 2014, the Company completed an asset acquisition which allowed the Company to acquire undeveloped land, as well as additional production, in its core Michichi area. The purchase price of $11.8 million was paid through a combination of shares ($10.8 million) and cash ($1.0 million).

On September 30, 2014, the Company completed the sale of its non-core, gas weighted asset in the Pembina area of Western Alberta for total consideration of $14 million, prior to customary closing adjustments. Proceeds from the sale provided the Company with a non-dilutive source of funding to

increase the Company's financial flexibility and expand the 2014 drilling program as previously noted. In addition, there were other minor dispositions in Q3 2014 for total proceeds of $1.3 million.

The Company expects to fund the 2014 capital program from funds flow from operations, non-core asset sales and its existing credit facilities.

**Capital Resources and Liquidity**

*Credit Facility*
During the third quarter, the Company entered into a new syndicated banking arrangement which consisted of a $70 million revolving demand facility, a $10 million operating facility as well as a $15 million acquisition facility with two Canadian chartered Banks. At September 30, 2014, the Company was in compliance with all covenants under its credit facility. The revolving and operating facilities bear interest at the Bank's prime rate plus an applicable margin (of 50 bps to 250 bps) determined by reference to the Company's net debt to cash flow ratio which is calculated as negative working capital, excluding the fair value of any commodity contracts, over annualized trailing quarterly cash flow from operating activities before working capital adjustments. The acquisition facility will bear interest at the Bank's prime rate plus an applicable margin (of 50 bps to 250 bps) plus an additional 50 bps per annum.

*Equity*
The Company is authorized to issue an unlimited number of common shares. As at September 30, 2014, there were 120,340,685 common shares outstanding, and convertible securities comprised of 10,137,349 options to acquire common shares and 1,679,835 warrants outstanding which are exercisable for an aggregate of 11,817,184 common shares.

On May 2, 2014, the Company closed a bought-deal financing of 22,115,650 common shares at a price of $0.91 per common share resulting in net proceeds of $18.8 million.

At November 13, 2014, there were 120,340,685 common shares outstanding and 10,096,099 stock options and 1,679,835 warrants outstanding which are exercisable into an aggregate of 11,775,934 common shares.

*Liquidity*
The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds flow generated from operations, the ability to draw on existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a short term liability as it is a demand loan and could potentially be paid within a year. The Company generated positive funds flow from operations for the three and nine month period ended September 30, 2014.

The Company's credit facility is a demand loan and as such the bank could demand repayment at any time. The credit facilities are subject to review on a periodic basis at the discretion of the Bank, and this review was completed in September 2014. Management is not aware of any indications that the bank would demand repayment within the next 12 months. The Company further expects that it will have

sufficient cash on hand to meet immediate obligations by actively monitoring its credit facilities through use of the operating and acquisition facilities, coordinating payment and revenue cycles each month, and an active hedging program to mitigate commodity price risk and secure cash flows.

*Capital management*

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Company maintains a flexible capital structure to maximize its ability to pursue oil and gas exploration opportunities and the requirement to sustain future development of the business. The Company monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Company monitors capital availability tracking its current working capital, available bank line of credit, projected cash flow from operating activities and anticipated capital expenditures. The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular reviews of financial information including budgets and forecasts. The Company's directors are responsible for overseeing this process. The Company considers its capital structure to include shareholders' equity and bank debt.

In order to maintain or adjust the capital structure, the Company may issue shares, amend, revise or renew terms of the existing credit facility and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional funds through debt or equity financing may be impacted by external conditions, including future commodity prices, particularly natural gas and the global economic downturn. The Company continually monitors business conditions including: changes in economic conditions, the risk of its drilling programs, forecasted commodity prices and potential corporate or asset acquisitions.

The Company monitors capital based on two financial ratios: 1) net debt to annualized funds flow and 2) working capital ratio. The net debt to annualized funds flow represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds flow from operating activities remained constant. This ratio is calculated as net debt divided by cash flows from operating activities before changes in non-cash working capital annualized. Net debt is defined as outstanding bank debt plus or minus net working capital (excluding fair value of commodity contracts and flow-through share premiums).

The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of property transactions, commodity prices and on the mix of exploratory and development drilling. There have been no changes to the Company's capital management policies for the nine month period ended September 30, 2014.

The following table summarizes the Company's net debt to annualized funds flow calculation:

| | **September 30, 2014 ($)** | December 31, 2013 ($) |
|---|---|---|
| Current assets (excluding commodity contracts) | **22,832,504** | 4,950,218 |
| Accounts payable and accrued liabilities | **(19,333,281)** | (15,066,033) |
| Bank debt | **(58,238,533)** | (63,008,179) |
| Net debt | **(54,739,310)** | (73,123,994) |

| | Nine months ended September 30, 2014 ($) | Year ended December 31, 2013 ($) |
|---|---|---|
| Funds flow from operating activities | **26,427,729** | 10,555,764 |
| Annualized | **35,236,972** | 10,555,764 |
| Net debt to annualized funds flow | **1.6** | 6.9 |

As at September 30, 2014, the Company's ratio of net debt to annualized funds flow was 1.6 to 1 (December 31, 2013 – 6.9 to 1). The decrease in the ratio at September 30, 2014 was a result of an increase in funds flow from operating activities related to the asset acquisitions completed December 31, 2013 and March 6, 2014 and a decline in the outstanding bank debt related to the issue of common shares completed May 2, 2014 and the sale of the Pembina assets on September 30, 2014.

The following table summarizes the Company's working capital calculation for purposes of its lending facility covenants:

**Working Capital Ratio**

| | As at September 30, 2014 | As at December 31, 2013 |
|---|---|---|
| Current assets | **$ 22,832,504** | $ 4,950,218 |
| Undrawn available credit | **20,900,000** | 11,087,865 |
| Subtotal | **$ 43,732,504** | $ 16,038,083 |
| Current liabilities | **$ 20,675,939** | $ 16,805,088 |
| Working capital ratio | **2.1 to 1.00** | 0.95 to 1.00 |

The Company is required to maintain, under its credit facility, a working capital ratio of greater than 1 to 1 defined as the ratio of current assets (including undrawn available credit on the revolving portion of the facility and excluding the fair value of the commodity contracts) divided by current liabilities (less the current portion of bank debt and the fair value of the commodity contracts). At September 30, 2014, the working capital ratio was 2.1 to 1.0 (December 31, 2013 – 0.95 to 1.0) and the Company was in compliance with the covenant. The working capital ratio increased to 2.1 to 1.0 for the period ended September 30, 2014, as a result of the decrease in the outstanding debt balance and resulting increase in the undrawn available credit related to the issue of common shares completed May 2, 2014 and the sale of the Pembina assets on September 30, 2014. At December 31, 2013, the Company could have satisfied the working capital covenant by drawing down the A&D loan. The Bank waived the breach at December 31, 2013.

**Contractual Obligations**

Marquee has contractual obligations in the normal course of business. The Company has a rental commitment relating to leased office premises.

| | ($) |
|---|---|
| 2014 | 74,000 |
| 2015 | 110,000 |
| **Total** | **184,000** |

On November 26, 2013, the Company issued 8,000,500 flow-through common shares on a Canadian Exploration Expense ("CEE") flow-through basis at $0.95 per CEE flow-through common share for total proceeds of $7,600,475. At September 30, 2014, the Company had a remaining obligation of $5,102,000 as the majority of costs spent in the nine-month period ended September 30, 2014 related to capital expenditures that did not qualify as renounceable CEE for flow-through share purposes. These funds are to be expended no later than December 31, 2014.

**Off Balance Sheet Arrangements**

The Company does not have any special purpose entities, nor is it party to any arrangements that would be excluded from the balance sheet.

**Changes in Accounting Policy**

- On January 1, 2014, the Company adopted IFRS Interpretations Committee (IFRIC) 21, "Levies" which provides guidance on accounting for levies in accordance with the requirements of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". The interpretation clarifies that an entity is to recognize a liability for a levy when the activity that triggers the payment occurs. The interpretation also clarifies that a levy liability is to be accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. The adoption of this interpretation had no impact on the Company's financial statements.
- On January 1, 2014, the Company adopted the amended IAS 36, "Impairment of Assets". The amendments reduce the circumstances in which the recoverable amount of cash generating units, "CGUs", is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact the Company's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- On January 1, 2014, the Company adopted several narrow-scope amendments to a total of nine standards issued by the IASB in December 2013. The adoption of these amendments had no impact on the financial statements.

The Company will be required to adopt each of these new standards in future years:
Financial Instruments

- IFRS 9, "Financial Instruments" provides a comprehensive new standard for accounting for all

aspects of financial instruments. It includes a logical model for classification and measurement, a single, forward-looking 'expected-loss' impairment model and a substantially reformed approach to hedge accounting. The new standard is effective for years beginning on or after January 1, 2018. The Company has not determined the impact of the new standard on its financial statements.

Revenue Recognition

- IFRS 15, "Revenue from Contracts with Customers" provides a comprehensive new standard for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within scope of the standards on leases, insurance contracts and financial instruments. It specifies how and when to recognize revenue as well as requiring entities to provide more informative and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2017. The Company has not determined the impact of the standard on its financial statements.

**Critical Accounting Judgments and Estimates**

The Company's financial statements have been prepared in accordance with IFRS. A summary of the significant accounting policies are presented in note 3 of the Notes to the annual Consolidated Financial Statements as at and for the year ending December 31, 2013. The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, as at the balance sheet date and the reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from these estimates. There have been no changes to the critical accounting judgments and estimates of the Company during the three and nine month periods ended September 30, 2014.

**Business Risks**

The oil and gas industry is subject to risks in (among others):

- Finding and developing reserves;
- Commodity prices received for such reserves;
- Availability of equipment, manpower and supplies;
- Availability and cost of capital to achieve projected growth;
- Effect of weather on drilling and production; and
- Operating in an environmentally appropriate fashion.

The Company mitigates these business risks by:

- Having assets in several diverse fields;
- Maintaining cost-effective operations;
- Maintaining a balance between oil and gas properties;
- Operating our own properties to control the amount and timing of capital expenditures;
- Using new technology to maximize production and recoveries and reduce operating costs;

- Restricting operations to western, central and southern Alberta where locations are accessible, operating and capital costs are reasonable and on-stream times are shorter; and
- Drilling wells in areas with multiple high deliverability zone potential.

**Environmental, Health and Safety Risk**

Environmental, health and safety risks relate primarily to field operations associated with oil and gas assets. To mitigate this risk, a preventative environmental, health and safety program is in place, as is operational loss insurance coverage. Marquee employees and contractors adhere to the Company's environmental, health and safety program, which is routinely reviewed and updated to ensure that the Company operates in a manner consistent with best practices in the industry. The Board of Directors oversees the risk assessment and risk mitigation process.

**Regulation, Tax and Royalty Risk**

Regulation, tax and royalty risk relates to changing government royalty regulations, income tax laws and incentive programs impacting the Company's financial and operating results. Management, with the assistance of legal and accounting professionals, stay informed of proposed changes in laws and regulations and proactively responds to and plan for the effects of these changes.

**Industry and Economic Factors**

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, environmental, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to taxation of oil and natural gas by agreements among the governments of Canada and Alberta, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Company's operations in a manner materially different than they would affect other oil and gas companies of similar size and with similar assets. All current legislation is a matter of public record and the Company is currently unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and natural gas industry.

The producers of oil are entitled to negotiate sales and purchase agreements directly with oil purchasers. Most agreements are linked to global oil prices. Global oil prices are set by daily, weekly and monthly physical and financial transactions for crude oil around the world. Those prices are primarily based on worldwide fundamentals of supply and demand. Specific prices depend in part on oil quality, prices of competing fuels, distance to the markets, value of refined products, the supply/demand balance and other contractual terms. The price of natural gas is also determined by negotiation between buyers and sellers.

International prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of other factors beyond the Company's control. These factors include, but are not limited to, the actions of the Organization of the Petroleum Exporting Countries (OPEC), world economic conditions, government regulation, political

developments, the foreign supply of oil, the price of foreign imports, the availability of alternate fuel sources and weather conditions.

In addition to federal regulation, each province has legislation and regulations governing land tenure, royalties, production rates, environmental protection, and other matters.

For a complete discussion of the risks affecting Marquee, refer to the Company's most recently filed Annual Information Form, available on SEDAR at www.sedar.com.

**Quarterly Financial Information**

The following is a summary of selected quarterly information that has been derived from the condensed interim financial statements of Marquee Energy Ltd. This summary should be read in conjunction with unaudited financial statements of Marquee as contained in the public record.

| | **2014** | | | **2013** | | | | **2012** |
|---|---|---|---|---|---|---|---|---|
| (000's except per share and per boe amounts) | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Total revenue ($) | 23,644 | 25,625 | 21,577 | 10,094 | 12,489 | 12,317 | 10,396 | 9,720 |
| Funds flow from operations $ | 10,334 | 9,273 | 6,820 | 27 | 3,080 | 4,420 | 3,029 | 2,003 |
| Basic & diluted ($/share) | 0.09 | 0.08 | 0.08 | 0.00 | 0.06 | 0.08 | 0.06 | 0.04 |
| Net Income (loss) ($) | (13,254) | 900 | (2,750) | 614 | (1,527) | 484 | (2,584) | (2,911) |
| Basic & diluted ($/share) | (0.11) | 0.01 | (0.03) | 0.01 | (0.03) | 0.01 | (0.05) | (0.05) |
| Capital expenditures *($)* | 23,395 | 5,188 | 24,824 | 49,428 | 8,484 | 1,543 | 8,589 | 14,521 |
| Total assets ($) | 276,951 | 282,939 | 283,559 | 239,156 | 163,418 | 163,017 | 169,446 | 162,645 |
| Total equity ($) | 127,384 | 140,088 | 119,826 | 111,506 | 88,287 | 89,730 | 89,050 | 91,413 |
| Working capital deficiency ($) | 55,809 | 60,938 | 85,128 | 75,815 | 50,247 | 47,079 | 51,224 | 44,507 |
| Weighted average common shares outstanding | 120,338 | 112,534 | 88,296 | 58,171 | 54,648 | 54,661 | 54,661 | 52,954 |
| Average daily production | | | | | | | | |
| Crude oil (bbls/d) | 1,379 | 1,434 | 1,223 | 709 | 722 | 830 | 834 | 651 |
| Heavy oil (bbls/d) | 531 | 525 | 511 | 518 | 480 | 534 | 532 | 510 |
| NGLs (bbls/d) | 253 | 195 | 180 | 87 | 96 | 80 | 58 | 96 |
| Natural gas (Mcf/d) | 17,881 | 17,285 | 12,657 | 4,799 | 545 | 4,942 | 5,054 | 5,897 |
| Total boe/d | 5,143 | 5,035 | 4,024 | 2,114 | 2,139 | 2,268 | 2,266 | 2,240 |

*Three months ended September 30, 2014 (Q3-2014) compared to June 30, 2014 (Q2-2014):*

Total revenue was lower in Q3, 2014 compared to Q2 2014 despite higher volumes of production as a result of decreases in the realized prices. The net loss in Q3 -2014 was a result of the non-core sale of oil and gas interests at Pembina. Capital expenditures in Q3-2014 were increased from Q2-2014 as a result of the drilling of eight wells in Q3 2014 compared to only one well drilled in Q2-2014.

*Three months ended June 30, 2014 (Q2 – 2014) compared to March 31, 2014 (Q1-2014):*
Total revenue was higher for the three months ended June 30, 2014 as a result of the acquired Paramount assets reflecting three full months of production, versus only three weeks in the prior quarter. The working capital deficiency decreased as a result funds raised in the financing of common shares in the current quarter.

*Three months ended March 31, 2014 (Q1 -2014) compared to December 31, 2013 (Q4-2013):*
Total revenue was higher for three months ended March 31, 2014 compared to the three months ended December 31, 2013 as a result of a combination of increased production that was acquired from two separate acquisitions and higher oil and natural gas prices. The increase in total assets and total equity reflect the purchase equation for the assets acquired during Q1-2014.

*Three months ended December 31, 2013 (Q4-2013) compared to September 30, 2013 (Q3-2013):*
The net loss was higher during the three months ended December 31, 2013 as a result of the transaction costs related to the asset acquisition and E&E expenditures for projects discontinued by management. Capital expenditures were significantly higher as a result of the significant capital program completed in Q4-2013.

*Three months ended September 30, 2013 (Q3-2013) compared to June 30, 2013 (Q2-2013):*
Revenue was consistent quarter over quarter. The decline in the net income was a result of a loss on the sale of oil and gas interests in Q3-2013 compared to a gain Q2-2013. In addition, there was an unrealized loss on commodity contracts compared to a gain on commodity contracts in Q2-2013.

*Three months ended June 30, 2013 (Q2-2013) compared to March 31, 2013 (Q1-2013):*
During the three months ended June 30, 2013, the Company increased funds flow from operations to $4.4 million as the Company continued its shift to a more oil and liquids weighted Company and realized significantly higher commodity prices.

*Three months ended March 31, 2013 (Q1-2013) compared to December 31, 2012 (Q4-2012):*
During the three months ended March 31, 2013, the Company increased funds flow from operations to $3.0 million as the Company continued its shift to a more oil and liquids weighted Company.

**NON-GAAP MEASURES**

This MD&A contains the term "field operating netbacks" which does not have a standardized meaning prescribed by IFRS and, therefore, may not be comparable with the calculation of similar measures by other companies. Marquee uses field operating netbacks to analyze operating performance. Marquee believes this benchmark is a key measure of profitability and overall sustainability for the Company and this term is commonly used in the oil and gas industry. Field operating netbacks are not intended to represent operating profits, net earnings or other measures of financial performance calculated in accordance with IFRS.

Field operating netbacks are calculated by subtracting royalties, production and operating and transportation expenses from revenues before other income/losses.

**ADDITIONAL GAAP MEASURES**

This MD&A and the financial statements contain the term "funds flow from operations" which should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with GAAP as an indicator of the Company's performance. Therefore reference to funds flow from operations or funds flow from operations per share may not be comparable with the calculation of similar measures for other entities. Management uses funds flow from operations to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt. Funds flow from operations per share is calculated using the weighted average number of shares for the period.

**Funds flow from operations**

| | Three Months Ended | | Change | Nine Months Ended | | Change |
|---|---|---|---|---|---|---|
| | **30-Sep-14** | 30-Sep-13 | | **30-Sep-14** | 30-Sep-13 | |
| Cash flow from operating activities | **7,603,254** | 2,927,494 | 160% | **20,246,538** | 11,208,430 | 81% |
| Changes in non-cash working capital | **(2,731,242)** | (152,882) | 1687% | **(6,181,191)** | 679,556 | -1010% |
| Funds flow from operations | **10,334,496** | 3,080,376 | 235% | **26,427,729** | 10,528,874 | 151% |

This MD&A and the financial statements also contain the term net debt and net debt to annualized funds flow. Net debt and net debt to annualized funds flow is calculated as net debt, defined as outstanding bank debt plus or minus net working capital (excluding fair value of commodity contracts and flow-through share premiums), divided by cash flow from operating activities before changes in non-cash working capital. Management considers net debt and net debt to annualized funds flow as

important additional measures of the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds flow from operating activities remained constant.

**BOE Presentation**

The term "barrels of oil equivalent" (BOE) may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared with natural gas is significantly different than the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value. (This conversion conforms to National Instrument 51-101). References to natural gas liquids ("NGL") in this MD&A include condensate, propane, butane and ethane. One barrel of NGL is considered to be equivalent to one barrel of crude oil equivalent (BOE).

**FORWARD-LOOKING INFORMATION AND STATEMENTS**

Certain statements included or incorporated by reference in this Management's Discussion and Analysis may constitute forward looking statements under applicable securities legislation. Such forward looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this Management's Discussion and Analysis may include, but are not limited to:

- 2014 capital budget and expenditures;
- business strategies, objectives and outlook;
- petroleum and natural gas sales;
- future production levels (including the timing thereof) and rates of average annual production growth;
- exploration and development plans;
- acquisition and disposition plans and the timing and the anticipated benefits thereof;
- anticipated cash flows;
- expected cost reductions and production efficiencies derived from recently acquired assets;
- number and quality of future potential drilling locations future drilling plans;
- expected debt levels;.
- operating and other expenses;
- royalty and income tax rates; and
- the timing of regulatory proceedings and approvals.

Such forward-looking statements or information are based on a number of assumptions all or any of which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things:

- the ability of the Company to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability of the Company to market crude oil, natural gas liquids and natural gas successfully to current and new customers;
- the ability to secure adequate product transportation;
- the timely receipt of required regulatory approvals;
- the ability of the Company to obtain financing on acceptable terms;
- interest rates;
- regulatory framework regarding taxes, royalties and environmental matters;
- future crude oil, natural gas liquids and natural gas prices; and
- Management's expectations relating to the timing and results of development activities.

Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by the Company and described in the forward-looking information. The material risk factors affecting the Company and its business are contained in Marquee's Annual Information Form.

The forward-looking information contained in this Management's Discussion and Analysis is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws. The forward looking information contained in this Management's Discussion and Analysis is expressly qualified by this cautionary statement.