Marksmen Energy Inc.

Consolidated Financial Statements
September 30, 2014
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the three and nine month period ended September 30, 2014 and 2013.

Management's Responsibility

To the Shareholders of Marksmen Energy Inc.:

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on managements informed judgements and estimates. Financial information contained in management's discussion and analysis is consistent with the consolidated financial statements.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control systems. The Audit committee is composed of three directors, two of whom are independent directors who are not employees of the Company. The Audit Committee is responsible for reviewing the consolidated financial statements and recommending them to the Board of Directors for approval. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements for issuance to the shareholders.

November 28, 2014

"SIGNED"

Archie Nesbitt

President and Chief Executive Officer

"SIGNED"

John McIntyre

Chief Financial Officer

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

(unaudited)

	September 30, 2014	December 31, 2013
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 13(b))	**421,318**	644,549
Trade and other receivables (note 13(b))	**545,829**	68,535
Deposits and prepaid expenses (note 15(a))	**153,244**	155,065
Total current assets	**1,120,391**	868,149
Non-current assets		
Exploration and evaluation assets (note 5)	**1,495,008**	230,248
Property and equipment (note 6 and note 7)	**692,778**	5,098
Total assets	**3,308,177**	1,103,495
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**250,394**	758,321
Decommissioning liabilities (note 8)	**134,965**	113,113
Total current liabilities	**385,359**	871,434
Non-current liabilities		
Secured debenture (note 9)	**731,338**	721,500
Decommissioning liabilities (note 8)	**315,821**	245,128
Total liabilities	**1,432,518**	1,838,062
Equity (deficit)		
Share capital (note 10(b))	**15,315,826**	12,965,740
Warrants (note 10(e))	**1,062,757**	623,990
Contributed surplus (note10(g))	**2,768,303**	2,378,945
Accumulated other comprehensive income	**143,329**	76,900
Deficit	**(17,414,556)**	(16,780,142)
Total equity (deficit)	**1,875,659**	(734,567)
Total liabilities and equity (deficit)	**3,308,177**	1,103,495

Going concern (note 1)
Commitments (note 15)

Approved by the Board of Directors:

Signed “Erich Boechler”	Signed “Archie Nesbitt”
Erich Boechler	Archie Nesbitt

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

Marksmen Energy Inc.

Consolidated Statements of Comprehensive Loss

For the three and nine months

(unaudited)

	Three months ended September 30, 2014	Three months ended September 30, 2013	**Nine months ended September 30, 2014**	Nine months ended September30, 2013
	$	$	**$**	$
Revenue				
Petroleum and natural gas revenue	**288,852**	-	**374,363**	-
Royalties	**(36,751)**	-	**(47,609)**	-
	252,101	-	**326,754**	-
Expenses				
Production and operating expenses	**39,177**	173	**45,065**	2,611
Depletion and depreciation (note 6)	**18,962**	393	**24,167**	1,182
Ohio business development	**85,548**	25,688	**199,456**	74,142
Investor relations and conferences	**25,356**	28,012	**106,784**	129,308
Compliance and listing costs	**20.335**	4,897	**48,721**	28,826
General and administrative	**112,351**	125,196	**324,006**	285,588
Share-based payments (note 10(d))	**169,766**	12,556	**230,848**	25,820
Loss from operations	**471,495**	196,915	**979,047**	547,477
Results from operating activities	**(219,394)**	(196,915)	**(652,293)**	(547,477)
Finance expense				
Interest expense	**22,500**	23,250	**67,500**	23,250
Forgiveness of debt	**(39,553)**	-	**(87,403)**	-
Foreign exchange (gain) loss	**(115,564)**	700	**(22,157)**	3,707
Accretion of debenture (note 9)	**3,432**	38,588	**9,838**	38,588
Accretion of decommissioning liabilities (note 8)	**1,642**	988	**4,275**	2,963
Net financing expenses	**127,543**	(63,526)	**27,947**	(68,508)
Other income and expenses				
Impairment of property and equipment (note 7)	**3,641**	-	**10,068**	-
	(3,641)	-	**(10,068)**	-
Total loss and comprehensive loss for the period	**(95,492)**	(260,441)	**(634,414)**	(615,985)
Basic and fully diluted earnings per share (note 10(h))	**(0.00)**	(0.01)	**(0.01)**	(0.02)
Weighted average number of common shares outstanding during the period	**54,096,506**	34,450,132	**45,691,657**	33,525,710

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

Marksmen Energy Inc.

Consolidated Statements of Changes in Equity (Deficit)
(unaudited)

	Share capital	Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity (deficit)
Balance, December 31, 2012	12,634,362	1,361,738	1,428,647	(15,845,091)	76,900	(343,444)
Loss for the period	-	-	-	(615,985)	-	(615,985)
Private placement	194,652	113,113	-	-	-	307,765
Share issue costs	(15,257)	(8,865)	-	-	-	(24,122)
Warrants issued pursuant to the Debenture	-	388,754	-	-	-	388,754
Share-based payments	-	-	25,820	-	-	25,820
Fair value of modified warrants	(358,657)	358,657	-	-	-	-
Reallocation of warrant fair value on expiry	-	(245,668)	245,668	-	-	-
Balance, September 30, 2013	12,455,099	1,967,729	1,700,135	(16,461,076)	76,900	(261,213)
Balance, December 31, 2013	12,965,740	623,988	2,378,945	(16,780,142)	76,900	(734,569)
Loss for the period	-	-	-	(634,414)		(634,414)
Unrealized foreign exchange on translation	-	-	-	-	66,429	66,429
Units issued pursuant to private placements	524,836	900,245	-	-	-	1,425,081
Cash share issue costs	(17,986)	(32,967)	-	-	-	(50,953)
Broker warrants issued	(11,506)	(21,956)	33,462	-	-	-
Share-based payments	-	-	376,441	-	-	376,441
Exercise of stock options	34,000	-	-	-	-	34,000
Reallocation of stock option fair value on exercise	27,712	-	(27,712)	-	-	-
Exercise of broker warrants	16,960	-	-	-	-	16,960
Reallocation of broker warrant fair value on exercise	16,081	-	(16,081)	-	-	-
Exercise of warrants	1,376,683	-	-	-	-	1,376,683
Reallocation of warrant fair value on exercise	383,306	(383,306)	-	-	-	-
Reallocation of warrant fair value on expiry	-	(23,247)	23,247	-	-	-
Balance, September 30, 2014	15,315,826	1,062,757	2,768,303	(17,414,556)	143,329	1,875,659

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

Marksmen Energy Inc.

Consolidated Statements of Cash Flows
(unaudited)

	For the nine months ended September 30, 2014 $	For the nine months ended September 30, 2013 $
Cash (used in) provided by:		
Operating activities		
Net loss for the period	**(634,414)**	(615,985)
Adjustments for:		
Depletion, depreciation and amortization	**24,167**	1,182
Accretion of decommissioning liabilities	**4,275**	2,963
Accretion of debenture	**9,838**	38,588
Impairment of property and equipment	**10,068**	-
Share-based payments	**230,848**	25,820
Unrealized foreign exchange on translation	**32,902**	-
	(322,316)	(547,432)
Change in trade and other receivables	**(171,088)**	8,600
Change in prepaid expenses and deposits	**1,821**	(41,548)
Change in accounts payable and accrued liabilities	**(299,656)**	(68,710)
Net cash used in operating activities	**(791,239)**	(649,090)
Investing activities		
Property and equipment expenditures	**(21,779)**	(11,572)
Exploration and evaluation expenditures	**(1,697,506)**	(70,983)
Change in trade and other receivables	**(306,206)**	-
Change in accounts payable and accrued liabilities	**(107,272)**	115,102
Net cash used in investing activities	**(2,132,763)**	32,547
Financing activities		
Proceeds from private placement, net of cash issue costs	**1,374,128**	283,643
Proceeds from exercise of warrants	**1,376,683**	-
Proceeds from exercise of stock options	**34,000**	-
Proceeds from exercise of broker warrants	**16,960**	-
Proceeds from issuance of secured debenture	**-**	750,000
Change in accounts payable and accrued liabilities	**(101,000)**	30,500
Net cash generated from financing activities	**2,700,771**	1,064,143
Change in cash	**(223,231)**	447,600
Cash, beginning of period	**644,549**	152,698
Cash, end of period	**421,318**	600,298

1 Reporting entity

Marksmen Energy Inc. (the "Company") is involved in the exploration for, development of and production of petroleum and natural gas properties in Ohio, USA and Western Canada. The Company was incorporated in Canada under the laws of the Alberta Business Corporations Act on March 14, 1997. The Company is listed on the TSX Venture Exchange under the symbol "MAH.V" and the New York based OTCQB Venture Marketplace under the symbol "MKSEF". The Company's registered is located at Suite 1600 Dome Tower, 333-7th Avenue SW, Calgary, Alberta, Canada, T2P 2Z1. These consolidated financial statements include the accounts of the Company's wholly owned subsidiary Marksmen Energy USA, Inc.

At September 30, 2014, the Company had not yet achieved profitable operations, had accumulated a deficit of $17,414,556 since its inception (December 31, 2013 - $16,780,142), working capital of $735,032 (December 31, 2013 – deficiency of $3,285), negative cash flow from operations of $791,239 (December 31, 2013 - $741,161) and expects to incur further losses in the development of its business. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing, or generating profitable operations in the future. Management is committed to raising additional capital to achieve its intended development, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which have been distressed, particularly for junior petroleum and natural gas companies. These factors and the current economic conditions, have caused, and will likely continue to cause significant doubt as to whether the Company is a going concern. The Company successfully completed two private placements during the nine months ended September 30, 2014 (note 10(b)). Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

2 Basis of presentation

a) Statement of compliance:

The interim condensed consolidated financial statement have been prepared in accordance with International Accounting Standards ("IAS") 34 – *"Interim Financial Reporting"* as issued by the International Accounting Standards Board ("IASB") using the accounting policies and methods of computation disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2013. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2013 and exclude certain disclosures required to be included in annual consolidated financial statements.

b) Judgments and estimates:

In preparing these interim condensed consolidated financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2013.

3 Recent accounting pronouncements

The following pronouncements and amendments are effective for annual periods beginning on or after January 1, 2014 unless otherwise stated. Adopting these standards has had minimal or no impact on the Company's consolidated financial statements.

IAS 36 – "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. These amendments have be applied by the Company on January 1, 2014 and the adoption will only impact the Company's disclosures in the notes to the consolidated financial statements in periods when an impairment loss or impairment reversal is recognized.

IFRIC 21 – "Levies" which clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached.

The following pronouncement will become effective for periods beginning on or after January 1, 2018. The Company has not yet begun the process of assessing the impact that the new standard will have on its financial statements:

IFRS 9 – "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39 – "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

4 Equity investment

The Company has suspended business negotiations with US PrivateCo., and as at September 30, 2014, no assurance can be given that any agreement with US PrivateCo. will be reached with respect to either new business terms or moving forward with the necessary technical work to produce the properties. The impact to the Company is not known at this time.

During the year ended December 31, 2012, the Company's share of the US PrivateCo. losses were in excess of Company's interest and accordingly the investment was reduced to $nil. The Company has discontinued recognizing its share of any further losses.

5 Exploration and evaluation assets

	E&E assets $
Balance, December 31, 2012	-
Expenditures on exploration and evaluation assets	230,248
Balance, December 31, 2013	230,248
Expenditures on exploration and evaluation assets	1,843,099
Transfers to property and equipment (note 6)	(611,866)
Foreign currency translation	33,527
Balance, September 30, 2014	1,495,008

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at September 30, 2014, the Company had and E&E balance of $1,495,008 (December 31, 2013 - $230,248). The additions represent the acquisition of undeveloped land and seismic activity within Ohio, USA. The transfers to property and equipment reflect assets in which technological feasibility and commercial viability have been established. Prior to the transfers to property and equipment, the E&E assets are added to the net book value of the appropriate CGU, which is subsequently tested for impairment. There was no impairment recognized on the transfers of the E&E assets to property and equipment.

6 Property and equipment

	Oil and natural gas interests	Corporate and Other	Total
	$	$	$
Cost, December 31, 2012:	419,750	16,623	436,373
Additions	10,033	1,999	12,032
Changes in estimate of decommissioning liabilities (note 8)	50,440	-	50,440
Cost, December 31, 2013	480,223	18,622	498,845
Accumulated depletion, depreciation and impairment	(348,289)	(11,947)	(360,236)
Depreciation and depletion for the year	-	(1,577)	(1,577)
Impairment loss (note 7)	(131,934)	-	(131,934)
Carrying value, December 31, 2013	-	5,098	5,098

	Oil and natural gas interests	Corporate and Other	Total
	$	$	$
Cost, December 31, 2013:	480,223	18,622	498,845
Additions	21,779	-	21,779
Transfer from exploration and evaluation (note 5)	611,866	-	611,866
Changes in estimate of decommissioning liabilities (note 8)	88,270	-	88,270
Cost, September 30, 2014	1,202,138	18,622	1,220,760
Accumulated depletion, depreciation and impairment	(480,223)	(13,524)	(493,747)
Depreciation and depletion for the period	(23,103)	(1,064)	(24,167)
Impairment loss (note 7)	(10,068)	-	(10,068)
Carrying value, September 30, 2014	688,744	4,034	692,778

7 Impairment loss

During the year ended December 31, 2013, the Company impaired its oil and natural gas assets in its Alder Flats CGU to $nil. The Alder Flats CGU, the Company's only Canadian oil and natural gas asset, has been shut-in for in excess of two years, which combined with the Company's refocus to its Ohio, USA exploration project, and the continued decline in reserves and commodity prices, resulted in management's assessment that the carrying amount of the CGU was impaired resulting in a $131,934 change to earnings. At September 30, 2014, the Company's management continued to assess the carrying amount of the CGU as $nil, and accordingly recorded an impairment of $10,068.

8 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $450,786 as at September 30, 2014 (December 31, 2013 - $358,241), of which $134,965 is current (December 31, 2013 - $113,113). The total undiscounted amount of estimated liability is $472,871 (December 31, 2013 - $372,581). These payments are expected to be made over the next 15 years. The obligations have been calculated using an inflation rate of 2% (December 31, 2013 – 2%) and a discount factor, being the risk-free rate related to the liability, of 1.12% - 2.56% (December 31, 2013 –1.10% - 2.40%).

	September 30, 2014	December 31, 2013
	$	$
Balance, beginning of period	**358,241**	303,851
Liabilities incurred	**86,912**	-
Revisions – changed estimates	**1,358**	50,440
Accretion	**4,275**	3,950
Less: current portion	**(134,965)**	(113,113)
Balance, end of period	**315,821**	245,128

9 Secured debenture

On June 28, 2013, the Company closed a secured debenture (the "Debenture") for gross proceeds of $750,000. The funds received under the Debenture were used by the Company to conduct the initial 3D Seismic program and to fund the work required to the drilling stage on the Houghton Project in Ohio, USA. The Debenture bears interest of 12% per annum, with the first payment due and payable on June 28, 2014, and each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2014. As of September 30, 2014, the Company has incurred $113,250 of interest expense (December 31, 2013 - $45,750), of which $67,500 was incurred during the nine months ended September 30, 2014. The Company made the required interest payment of $90,750 during the period ended September 30, 2014. The Debenture matures on January 31, 2016. The Company may, at any time, repay the Debenture in full and any accrued and unpaid interest without notice or penalty. If the Company is in default of the requirements included in the Debenture agreement, the Debenture holder may demand repayment of the Debenture or accelerate the date for payment. Security for the Debenture includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

Pursuant to the Debenture, the Company issued to the Debenture holder 2,666,667 share purchase warrants. Each warrant is exercisable into one common share of the Company at a price

of $0.17 per common share until the expiry date of the earlier of: (i) two months following payment in full of the Debenture; or (ii) June 30, 2017.

The Company valued the equity component of the debenture using the residual method. Using this method, the fair value of the debt component was calculated using an estimated market rate for similar debt without warrants or a conversion feature. The liability component was $715,519 and the equity component was $34,481, which net of tax is $25,861.

	Debenture $
Debenture	750,000
Debenture warrants	(34,481)
Accretion of debenture	5,981
Balance, December 31, 2013	**721,500**
Accretion of debenture	**9,838**
Balance, September 30, 2014	**731,338**

10 Share capital

a) Authorized

Unlimited number of common shares with voting rights, at par value
Unlimited number of preferred shares, issuable in series, at par value

b) Issued

	Number of Common Shares	Amount $
Balance, December 31, 2012	32,398,365	12,634,362
Shares issued pursuant to private placement (i)	2,051,767	194,652
Share issue costs (i)	-	(15,257)
Shares issued pursuant to private placement (ii)	1,059,000	74,982
Share issue costs (ii)	-	(5,808)
Exercise of warrants (note 10(e))	500,000	60,000
Reallocation of fair value upon exercise of warrants (note 10(e)	-	22,809
Balance, December 31, 2013	36,009,132	12,965,740
Shares issued pursuant to private placement (iii)	985,000	60,059
Shares issued pursuant to private placement (iv)	8,137,225	464,777
Share issue costs (iv)	-	(29,492)
Exercise of stock options (note 10(c))	183,333	34,000
Reallocation of fair value upon exercise of stock options	-	27,712
Exercise of broker warrants (note 10(f))	106,000	16,960
Reallocation of fair value upon exercise of broker warrants (note 10(f))	-	16,081
Exercise of warrants (note 10(e))	9,702,403	1,376,683
Reallocation of fair value upon exercise of warrants (note 10(e))	-	383,306
Balance, September 30, 2014	55,123,093	15,315,826

(i) On May 3, 2013, the Company completed a private placement, issuing 2,051,767 units ("Unit A") at $0.15 per Unit A for aggregate proceeds of $307,765. Each Unit A consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.30 per common share for a period of 12 months from issuance, which was valued at $113,113 (note 10(e)(i)).

In connection with the private placements, the Company incurred cash share issue costs of $24,122 of which $15,257 was allocated to share capital and $8,865 was allocated to warrants.

(ii) On October 25, 2013, the Company completed a private placement, issuing 1,059,000 units ("Unit B") at $0.125 per Unit B for aggregate proceeds of $132,375. Each Unit B consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.18 per common share for a period of 36 months from issuance, which was valued at $57,393 (note 10(e)(ii)).

In connection with the private placements, the Company incurred cash share issue costs of $10,252 of which $5,808 was allocated to share capital and $4,444 was allocated to warrants.

(iii) On January 17, 2014, the Company completed a private placement, issuing 985,000 units ("Unit C") at $0.125 per Unit C for aggregate proceeds of $123,125. Each Unit C consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.18 per common share for a period of 36 months from issuance, which was valued at $63,066 (note 10(e)(iii)).

(iv) On April 28, 2014, the Company completed a private placement, issuing 8,137,225 units ("Unit D") at $0.16 per Unit D for aggregate proceeds of $1,301,956. Each Unit D consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.25 per common share for a period of 24 months from issuance, which was valued at $837,179 (note 10(e)(iv)).

In connection with the private placement, the Company incurred cash share issue costs of $50,953 of which $17,986 was allocated to share capital and $32,967 was allocated to warrants. 225,720 broker warrants were also issued, valued at $33,462 (note 10(f)(i)).

$11,506 of the broker warrants value was allocated to share capital and $21,956 was allocated to warrants, with an offsetting credit to contributed surplus.

c) Stock options

The Company has established a stock option plan (the "Plan") for the benefit of the directors, officers, employees and consultants of the Company. The maximum number of options available under the Plan is limited to 10% of the issued and outstanding common shares on the date the option is granted, with the maximum number of options available to an individual director/officer or technical consultant not exceeding 5% or 2%, respectively, of the issued and outstanding shares. Such options will be exercisable for a period of up to 5 years from the date of grant, at an exercise price and vesting period as determined by the Board of Directors.

A summary of the status of the Company's stock option plan and changes during the period is as follows:

	September 30, 2014		December 31, 2013	
	Number of Options	**Weighted Avg. Exercise Price $**	Number of Options	Weighted Avg. Exercise Price $
Outstanding, beginning of period	**2,913,000**	**0.18**	2,838,000	0.18
Granted	**2,560,000**	**0.34**	300,000	0.17
Exercised	**(183,333)**	**(0.19)**	-	-
Forfeited	**-**	**-**	(83,333)	(0.12)
Cancelled	**-**	**-**	(141,667)	(0.25)
Outstanding, end of period	**5,289,667**	**0.26**	2,913,000	0.18

			Options outstanding
Range of exercise prices	**Number of options outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price $**
0.10 – 0.19	2,196,667	3.64	0.14
0.20 – 0.29	678,000	0.88	0.20
0.30 – 0.39	515,000	1.60	0.30
0.40 – 0.49	1,900,000	4.89	0.40

As at September 30, 2014, the Company had 3,059,667 exercisable options and 2,230,000 options granted but not yet vested (December 31, 2013 – 2,289,667 and 623,333, respectively). The weighted average exercise price of the exercisable options is $0.23 (December 31, 2013 - $0.19).

d) Share-based payment expense

During the period ended September 30, 2014, the Company granted 2,560,000 stock options (December 31, 2013 – 300,000) consistent with the Plan. The options granted are exercisable at a weighted average of $0.34 per option (December 31, 2013 - $0.17) and expire 5 years after the grant date (December 31, 2013 – 5 years). 1/3 of the stock options vest immediately and the remaining stock options granted vest 1/3 on each of the first and second anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model.

	2014	2013
Risk-free interest rate	**1.25%**	1.26%
Expected life	**2.5 years**	2.5 years
Expected volatility	**286.37%**	175.95%
Fair value per option	**0.34**	0.12
Forfeiture rate	**19.31%**	20.00%

Compensation expense recognized during the three and nine months ended September 30, 2014 was $311,672 and $376,441, respectively, (September 30, 2013 - $12,556 and $25,820), of which $169,766 and $230,848, respectively, has been recorded in the statement of comprehensive loss (September 30, 2013 - $12,556 and $25,820) and $141,906 and $145,593, respectively, has been capitalized as exploration and evaluation assets (September 30, 2013 - $nil), all of which has been recorded as an offsetting credit to contributed surplus.

e) Warrants

	Number of Warrants	**Weighted Average Exercise Price $**	**Amount $**	**Weighted Average Expiry Date**
Balance, December 31, 2012	18,422,760	0.23	1,361,738	0.76
Warrants issued pursuant to the Debenture (note 9)	2,666,667	0.17	25,861	2.16
Warrants issued pursuant to Private Placement (i)	1,025,885	0.30	113,113	0.34
Share issue costs (i)	-	-	(8,865)	-
Warrants issued pursuant to Private Placement (ii)	529,500	0.18	57,393	2.82
Share issue costs (ii)	-	-	(4,444)	-
Exercise of warrants	(500,000)	-	(22,809)	-
Warrants expired unexercised	(7,186,084)	0.32	(897,997)	-
Balance, December 31, 2013	14,958,728	0.18	623,988	0.88
Warrants issued pursuant to Private Placement (iii)	492,500	0.18	63,066	2.55
Warrants issued pursuant to Private Placement (iv)	4,068,613	0.25	837,179	1.80
Share issue costs (iv)	-	-	(54,923)	-
Exercise of warrants	(9,702,403)	-	(383,306)	-
Warrants expired unexercised	(741,773)	-	(23,247)	-
Balance, September 30, 2014	9,075,665	0.24	1,062,757	1.33

(i) As part of the units issued on May 3, 2013 (note 10(b)(i)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.30 for a period of 12 months from the date of closing. A value of $113,113 ($0.11 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placements, share issue costs totaling $8,865 were allocated to warrants (note 10(b)(i)).

(ii) As part of the units issued on October 25, 2013 (note 10(b)(ii)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.18 for a period of 36 months from the date of closing. A value of $57,393 ($0.11 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placements, share issue costs totaling $4,444 were allocated to warrants (note 10(b)(ii)).

(iii) As part of the units issued on January 17, 2014 (note 10(b)(iii)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.18 for a period of 36 months from the date of closing. A value of $63,066 ($0.13 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity.

(iv) As part of the units issued on April 28, 2014 (note 10(b)(iv)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.25 for a period of 24 months from the date of closing. A value of $837,179 ($0.21 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placements, share issue costs totaling $54,923 were allocated to warrants (note 10(b)(iv)).

The fair value of the warrants issued during the nine months ended September 30, 2014 are estimated as at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the calculation are noted below:

	2014	2013
Risk-free interest rate	**1.06%**	1.03%
Expected life	**2.11 year**	1.68 year
Expected volatility	**255.95%**	224.91%
Fair value per warrant	**$0.20**	$0.11

f) Broker warrants

	Number of Broker Warrants	**Weighted Average Exercise Price $**	**Amount $**	**Weighted Average Life (years)**
Balance, December 31, 2012	89,244	0.24	30,909	0.32
Expiry of Broker Warrants	(89,244)	-	(30,909)	0.24
Balance, December 31, 2013	-	-	-	-
Broker Warrants issued on private placement (i)	225,720	0.16	33,462	0.78
Exercise of broker warrants	(106,000)	-	(16,081)	-
Balance, September 30, 2014	**119,720**	**0.16**	**17,381**	**0.53**

(i) During the nine months ended September 30, 2014, the Company issued 225,720 (note 10(b)(iv)) broker warrants to those who facilitated the private placements. Each broker warrant granted entitles the holder to purchase one common share at a price of $0.16 per common share for a period of one year from the date of closing. The broker warrants were valued at $33,462 and recorded as share issue costs.

The fair value of the Broker Warrants granted is estimated as at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

	2014
Risk-free interest rate	**1.07%**
Expected life	**1.00 year**
Expected volatility	**161.26%**
Fair value per option	**$0.15**

g) Contributed surplus

	September 30, 2014	December 31, 2013
	$	$
Balance, beginning of period	**2,378,945**	1,428,647
Share-based payment expense (note 10(d))	**230,848**	44,114
Capitalize share-based payment (note 10(d))	**145,593**	8,187
Exercise of stock options	**(27,712)**	-
Expiry of warrants (note 10(e))	**23,247**	897,997
Exercise of broker warrants (note 10(f))	**(16,081)**	-
Broker warrants (note 10(f)(i))	**33,462**	-
Balance, end of period	**2,768,303**	2,378,945

h) Per share data

Basic loss per share is calculated based on the weighted average number of shares outstanding during the period. All warrants, broker warrants and stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

11 Income tax

Significant components of the deferred tax are as follows:

	September 30, 2014	December 31,2013
	$	$
Property and equipment	**(152,879)**	(148,179)
Non-capital loss carried forward	**(1,138,587)**	(1,017,094)
Contingent liability	**-**	(14,351)
Capital loss carried forward	**(262,218)**	(262,218)
Decommissioning liabilities	**(112,697)**	(89,560)
Share issue costs	**(30,495)**	(28,594)
Debenture	**(4,666)**	7,125
Deferred tax asset not recognized	**1,701,542**	1,552,871
	-	-

The Company has estimated tax pools totaling:

	Rate of	**September 30, 2014**	December 31,2013
	Claim	**$**	$
Canadian development expense	30%	**14,308**	14,308
Canadian oil and gas property expense	10%	**476,039**	467,104
Foreign resource expenditures	10%	**2,192,552**	222,061
Undepreciated capital cost	Various	**116,402**	116,402
Share issue costs		**121,980**	114,377
Non-capital loss carry forward		**4,554,348**	4,068,377
Capital loss carry forward		**2,097,742**	2,097,742
		9,573,371	7,100,371

The accumulated non-capital loss carry forwards expire between 2029 and 2034.

12 Related party transactions

Related party transactions not disclosed elsewhere in these consolidated financial statements are as follows:

During the three months ended September 30, 2014:

a) An aggregate of $76,500 (September 30, 2013 - $72,247) in consulting fees and expenses were paid to certain directors and officers of the Company and companies controlled by certain directors of the Company and were expensed as general and administrative expenses.

b) Aggregate legal fees of $21,018 (September 30, 2013 - $15,000) were charged by a law firm in which a director of the Company is a partner, of which $21,018 was expensed as general and administrative expenses (September 30, 2013 - $15,000) and $nil was recorded as share issue costs (September 30, 2013 - $nil).

c) An aggregate of $nil (September 30, 2013 - $nil) was paid or accrued as a liability to officers and directors who resigned from the Company in 2012.

d) An aggregate of $nil (September 30, 2013 - $nil) was paid to directors of the Company as prepayment for expenses.

During the nine months ended September 30, 2014:

e) An aggregate of $228,600 (September 30, 2013 - $249,446) in consulting fees and expenses were paid to certain directors and officers of the Company and companies controlled by certain directors of the Company and were expensed as general and administrative expenses.

f) Aggregate legal fees of $79,968 (September 30, 2013 - $35,884) were charged by a law firm in which a director of the Company is a partner, of which $65,130 were expensed as general and administrative expenses (September 30, 2013 - $35,884) and $14,838 was recorded as share issue costs (September 30, 2013 - $nil).

g) An aggregate of $45,063 (September 30, 2013 - $nil) was paid or accrued as a liability to officers and directors who resigned from the Company in 2012. $30,000 of the amount

accrued was written off by the Company during the nine months ended September 30, 2014.

h) An aggregate of $11,987 (September 30, 2013 - $nil) was paid to directors of the Company as prepayment for expenses.

i) The Company has trade and other receivables of $90,787 (December 31, 2013 - $88,502) owing from directors of the company and companies where a director is a shareholder.

j) The Company has recorded an allowance for doubtful accounts of $43,129 (December 31, 2013 - $43,129) owing from a private company in which a director of the company is a shareholder.

k) As at September 30, 2014, the Company has accounts payable and accrued liabilities totaling $39,869 (December 31, 2013 – $168,398) owing to related parties relating to the above transactions.

All of the above related party transactions are in the normal course of operations.

13 Financial risk management

(a) Fair values:

The fair value of cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities approximates their carrying value due to their short term nature. The fair value of the debenture was calculated using an estimate of the market rate for similar debentures without warrants.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.
At September 30, 2014, the Company's cash and cash equivalents has been subject to Level 1 valuation.

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of cash and cash equivalents and trade and other receivables represents the maximum credit exposure.

As at September 30, 2014, the Company had cash of $421,318 (December 31, 2013 - $644,549), of which $326,029 (December 31, 2013 - $607,049) is deposited with major financial institutions and $95,289 (December 31, 2013 - $37,500) is held in trust by the Company's legal counsel. Management has assessed the risk of loss to be minimal.

As at September 30, 2014, the Company's trade and other receivables consisted of $540,319 (December 31, 2013 - $60,819) from petroleum and natural gas companies and $5,510 (December 31, 2013 - $7,716) from others. The Company is subject to concentration risk as $422,303 (December 31, 2013 - $51,751) of its accounts receivable are held with one party, but management believes the collectability of these balances is assured based on prior payment history. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures.

The Company's trade and other receivables have been aged as follows:

	September 30, 2014	December 31, 2013
Days outstanding	**$**	$
0-30 days	**75,618**	16,917
31-60 days	**271,418**	-
61-90 days	**133,023**	8,625
Greater than 90 days	**65,770**	42,993
Total	**545,829**	68,535

At September 30, 2014, the Company has an allowance for $43,129 (December 31, 2013 - $43,129) of trade and other receivables that were deemed to be uncollectible.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At September 30, 2014, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $250,394 (December 31, 2013 - $758,321), which are all due over the next twelve months. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities.

The Company prepares annual capital expenditure budgets, which are regularly updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non operated projects to further manage capital expenditures.

(d) Market risk:

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks. If in the future management determines market risk warrants the use of financial derivatives or physical delivery sales contracts any such transactions would be approved by the Board of Directors.

(i) Commodity price risk:

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also world economic events that dictate the levels of supply and demand. All of the Company's oil and gas production are sold at spot rates exposing the Company to the risk of price movements.

The Company did not have any fixed price commodity price contracts in place as at or during the nine months ended September 30, 2014.

(ii) Foreign currency risk:

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company regularly converts Canadian currency into United States currency to provide funds for its Ohio based operations, and accordingly the

Company is subject to foreign currency risk. During the nine months ended September 30, 2014, the Company commenced the sale of oil in foreign currency (USD). A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash and cash equivalents during the period would have an impact of approximately $6,300 on the Company's loss for the period.

As at September 30, 2014, the Company had no forward exchange rate contracts in place or any working capital items denominated in foreign currencies.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have short or long term interest bearing debt with variable interest rates and therefore is only exposed to interest rate risk through its cash holdings. A hypothetical change of 10% to the interest rates applied to the average level of cash and cash equivalents held during the year would not have a material impact on the Company's loss for the nine months ended September 30, 2014.

The Company has no interest rate swaps or financial contracts in place as at or during the nine months ended September 30, 2014.

14 Capital management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business.

The Company actively manages its capital structure which includes shareholders' equity. In order to maintain or adjust its capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of current assets divided by current liabilities. At September 30, 2014, the working capital ratio was 2.91:1 (December 31, 2013 – 0.99:1). The Board of Directors has not established quantitative return on capital criteria for management, but rather promotes conservative capital management. The Company is not subject to any externally imposed capital requirements.

15 Commitments

a) Included in deposits and prepaid expenses is an amount of $153,244 on deposit with the Alberta Energy Regulators ("AER") due to the Company's Licensee Liability Rating ("LLR"). The LLR program is established by the AER to prevent the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline from becoming the responsibility of the public of Alberta. AER has assessed the risk of the Company's inability to suspend, abandon, remediate and reclaim the well as high, and accordingly has been requiring the Company to remit funds to prevent the costs from being reallocated to the Alberta public. During the nine months ended September 30, 2014, the AER increased the amount owed by the Company by an additional $140,043 from $701,373 at December 31, 2013, which includes $673,416 related to wells the Company sold to a related PrivateCo. in August 2010. Although these wells were sold during August 2010, the Company remains the licensee of the wells and is deemed to be the operator by AER. An abandonment notice that was given to the Company with a deadline of December 20, 2013 requiring the Company's compliance, has been put on hold pending further consideration by the AER.

   On February 14, 2014 the AER outlined a Licensee Liability Rating (LLR) Program Management Plan (the "Plan") whereby a corporation can undertake appropriate measures over a defined time period through December 2017 to meet their LLR program requirements. Detailed Plans were required to be submitted by March 31, 2014, which the Company submitted jointly with the PrivateCo. On May 5, 2014, the Company and the PrivateCo. were accepted into the Plan, which allows the Company and the Private Co. to turn wells back on production, optimize production, transfer wells to other operators, sell properties to other operators, abandon wells, and apply for change in licensing and liability rating status to facilities. These measures are designed to enable companies to meet the asset to liability ratio as prescribed by the AER. If the ratio is not met, a modified payment plan will begin in December 2014 until December 2017. The Company is required to provide monthly updates to AER to indicate the progress to meeting the defined asset liability ratio. The Company is in the process of transferring its interest in certain assets to another company.

b) The Company received a joint interest billing from an unrelated company in the first quarter of 2012 for what they determined to be 13 month adjustments for gathering and processing fees dating back to 2008 (the "Adjustments"). The Company's share of the joint interest billing was considered to be $166,174. During the year ended December 31, 2012, the Company recognized an accrued liability of $57,404 for amounts relating to 2010 as there was a potential that the Company would be liable for this amount.

The Company disputed the joint interest billing from the time it was received in April 2012 and during the period ending June 30, 2014, a final settlement with the unrelated party was received whereby it was determined that the Company is liable for a maximum amount of $39,553. Accordingly, the accrual was written down from $57,404 to $39,553. During 2010, the Company disposed of the assets that resulted in the Adjustments to a related party and did not have ownership of the assets during the period the Adjustments were caused. During the period ended September 30, 2014, the purchaser of the assets agreed to assume the liability of $39,553, and accordingly the Company has written down the accrual to $nil.