Marksmen Energy Inc.

Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

(Expressed in Canadian Dollars)

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.

MNP LLP, an independent firm of Chartered Accountants, is responsible for auditing the consolidated financial statements and expressing their opinion thereon and their report is presented separately. The external auditors have full and free access to management and the Audit Committee.

April 30, 2015

"SIGNED"	*"SIGNED"*
Archie Nesbitt	John McIntyre
President and Chief Executive Officer	Chief Financial Officer

Auditors' Report

To the Shareholders of Marksmen Energy Inc.:

We have audited the accompanying consolidated financial statements of Marksmen Energy Inc. and its subsidiary which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of comprehensive loss, changes in equity (deficit) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Marksmen Energy Inc. and its subsidiary as at December 31, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 in the consolidated financial statements which indicates that Marksmen Energy Inc. has a working capital deficiency of $41,800 and an accumulated deficiency of $17,719,439 as at December 31, 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not qualified in this respect.

April 30, 2015 — MNP LLP

Calgary, AB — Chartered Accountants

MNP

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

	December 31, 2014	December 31, 2013
	$	$
Assets		
Current assets		
Cash and cash equivalents (note 14(b))	**96,150**	644,549
Trade and other receivables (note 14(b))	**153,136**	68,535
Deposits and prepaid expenses (note 16(a))	**166,290**	155,065
Total current assets	**415,576**	868,149
Non-current assets		
Exploration and evaluation assets (note 6)	**924,800**	230,248
Property and equipment (note 7)	**1,869,084**	5,098
Total assets	**3,209,460**	1,103,495
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**288,368**	758,321
Decommissioning liabilities (note 9)	**169,008**	113,113
Total current liabilities	**457,376**	871,434
Non-current liabilities		
Secured debenture (note 10)	**734,770**	721,500
Decommissioning liabilities (note 9)	**303,262**	245,128
Total liabilities	**1,495,408**	1,838,062
Equity (deficit)		
Share capital (note 11(b))	**15,426,684**	12,965,740
Warrants (note 11(e))	**903,243**	623,990
Contributed surplus (note11(g))	**2,971,349**	2,378,945
Accumulated other comprehensive income	**132,215**	76,900
Deficit	**(17,719,439)**	(16,780,142)
Total equity (deficit)	**1,714,052**	(734,567)
Total liabilities and equity (deficit)	**3,209,460**	1,103,495

Going concern (note 1)
Commitments (note 16)
Subsequent events (note 17)

Approved by the Board of Directors:

Signed "Eric 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 years ended:

	December 31, 2014 $	December 31, 2013 $
Revenue		
Petroleum and natural gas revenue	**509,680**	-
Royalties	**(64,936)**	-
	444,744	-
Expenses		
Production and operating expenses	**95,121**	8,586
Depletion and depreciation (note 7)	**108,320**	1,577
Consulting fees	**291,399**	204,929
Professional fees	**231,931**	94,057
Investor relations and conference	**81,111**	121,121
Filing and listing costs	**66,296**	40,070
Ohio administrative expenses	**84,390**	82,749
General and administrative	**172,052**	134,732
Share-based payments (note 11(d))	**286,372**	44,114
Loss from operations	**(972,248)**	(731,935)
Finance (income) expense		
Interest expense	**90,000**	50,750
Bad debt (recovery) expense (note 14(b))	**(60,401)**	38,742
Foreign exchange	**(116,570)**	(19,621)
Accretion of debenture (note 10)	**13,270**	5,981
Accretion of decommissioning liabilities (note 9)	**5,922**	3,950
Net financing (income) expenses	**(67,779)**	(79,802)
Other expenses		
Impairment of property and equipment (note 7 and note 8)	**34,828**	131,934
	(34,828)	(131,934)
Loss and comprehensive loss before taxes	**(939,297)**	(943,671)
Deferred tax recovery	**-**	8,620
Net loss and comprehensive loss for the year	**(939,297)**	(935,051)
Other comprehensive income that may be subsequently transferred to net income		
Currency translation adjustment	**55,315**	-
Total comprehensive loss for the year	**(883,982)**	(935,051)
Basic and fully diluted (loss) per share (note 11(h))	**(0.02)**	(0.03)
Weighted average number of common shares outstanding during the year	**48,586,878**	33,954,477

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

Marksmen Energy Inc.

Consolidated Statements of Changes in Equity (Deficit)

	Share capital	Warrants	Contributed surplus	Deficit	Accumulated other comprehensive income	Total equity (deficit)
Balance, December 31, 2012	12,634,362	1,361,736	1,428,647	(15,845,091)	76,900	(343,444)
Loss for the year	-	-	-	(935,051)	-	(935,051)
Units issued pursuant to private placements	269,634	170,506	-	-	-	440,140
Cash share issue costs	(21,065)	(13,309)	-	-	-	(34,374)
Share-based payments	-	-	52,301	-	-	52,301
Exercise of warrants	60,000	-	-	-	-	60,000
Warrants issued pursuant to the secured debenture	-	25,861	-	-	-	25,861
Reallocation of warrant fair value on exercise	22,809	(22,809)	-	-	-	-
Reallocation of warrant fair value on expiry	-	(897,997)	897,997	-	-	-
Balance, December 31, 2013	12,965,740	623,988	2,378,945	(16,780,142)	76,900	(734,567)
Loss for the year	-	-	-	(939,297)	-	(939,297)
Translation differences on foreign subsidiary	-	-	-	-	55,315	55,315
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	-	-	470,786	-	-	470,786
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	1,436,729	-	-	-	-	1,436,729
Reallocation of warrant fair value on exercise	434,118	(434,118)	-	-	-	-
Reallocation of warrant fair value on expiry	-	(131,949)	131,949	-	-	-
Balance, December 31, 2014	15,426,684	903,243	2,971,349	(17,719,439)	132,215	1,714,052

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

Marksmen Energy Inc.

Consolidated Statements of Cash Flows

	December 31, 2014	December 31, 2013
	$	$
Cash (used in) provided by:		
Operating activities		
Net loss for the year	**(939,297)**	(935,051)
Adjustments for:		
Depletion and depreciation	**108,320**	1,577
Accretion of decommissioning liabilities	**5,922**	3,950
Abandonment costs	**(17,982)**	-
Accretion of debenture	**13,270**	5,981
Impairment of property and equipment	**34,828**	131,934
Bad debt (recovery) expense	**(60,401)**	38,742
Share-based payments	**286,372**	44,114
Unrealized foreign exchange on translation	**18,011**	-
Deferred tax recovery	**-**	(8,620)
	(550,957)	(717,373)
Change in trade and other receivables	**5,370**	(5,950)
Change in deposits and prepaid expenses	**(11,225)**	(41,926)
Change in accounts payable and accrued liabilities	**(271,752)**	24,088
Net cash used in operating activities	**(828,564)**	(741,161)
Investing activities		
Property and equipment expenditures	**(1,597,365)**	(12,032)
Exploration and evaluation expenditures	**(756,514)**	(222,061)
Change in non-cash working capital	**(97,203)**	150,339
Net cash used in investing activities	**(2,451,082)**	(83,754)
Financing activities		
Proceeds from private placement, net of cash issue costs	**1,374,128**	405,766
Proceeds from exercise of warrants	**1,436,729**	60,000
Proceeds from exercise of stock options	**34,000**	-
Proceeds from exercise of broker warrants	**16,960**	-
Proceeds from secured debenture	**-**	750,000
Change in non-cash working capital	**(130,570)**	101,000
Net cash generated from financing activities	**2,731,247**	1,316,766
Change in cash	**(548,399)**	491,851
Cash, beginning of year	**644,549**	152,698
Cash, end of year	**96,150**	644,549

Additional information:		
Interest paid on secured debenture	**90,000**	**-**

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

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 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 on the OTCQB Venture Marketplace under the symbol "MKSEF". The Company's registered office is located at Suite 1600 Dome Tower, 333-7th Avenue SW, Calgary, Alberta, Canada, T2P 2Z1.

At December 31, 2014, the Company had not yet achieved profitable operations, had accumulated a deficit of $17,719,439 since its inception (December 31, 2013 - $16,780,142), working capital deficiency of $41,800 (December 31, 2013 – deficiency of $3,285), negative cash flow from operations of $828,563 (December 31, 2013 - $741,161) and expects to incur further losses in the development of its business. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. 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. The Company successfully completed two private placements during the year ended December 31, 2014 (note 11(b)). 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. 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 consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations as issued by the International Accounting Standards Board. The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2014. The Board of Directors approved the statements on April 30, 2015.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2(e).

b) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Marksmen Energy USA, Inc. The subsidiary is fully consolidated from the date of acquisition, being the date of which the Company obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. Any balances, unrealized gains and losses, or income and expenses from intra-company transactions are fully eliminated upon consolidation.

c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

d) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency. Marksmen Energy USA Inc.'s functional currency is United States Dollars.

e) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

<u>Significant judgments</u>

Determination of cash-generating units ("CGU")

Property and equipment are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment and include consideration of product composition, location, and operational and management monitoring.

Deferred taxes

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, probability and reversal of temporary differences between accounting and tax bases of assets and liabilities.

Significant estimates and assumptions

Reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gasproperties. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either
a positive or negative impact on the statement of comprehensive loss as further information becomes available and as the economic environment changes.

Decommissioning liabilities

The Company estimates the decommissioning liabilities for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning liabilities and related accretion expense require estimates regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal costs, and discount rates to determine the present value of these cash flows.

Exploration and evaluation assets

The accounting for exploration and evaluation requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves have been found.

Share-based compensation

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the option, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that actually vest.

Recoverability of assets

The Company assesses impairment on its assets that are subject to depreciation when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Company used the calculation of fair value less costs to sell to determine the fair value of its CGU's. In determining the fair value less costs to sell, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves, to determine an implied fair value of the CGU being tested.

Provision for doubtful accounts

The provision for doubtful accounts is reviewed by management. Trade receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Management makes these assessments after taking into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Company's historical bad debt expenses have not been significant and are usually limited to specific customer circumstances. However, given the cyclical nature of the oil and natural gas industry along with the current economic operating environment, a customer's ability to fulfill its payment obligations can change suddenly and without notice.

3 Significant accounting policies

Cash

Cash is comprised of cash on hand, term deposits held with banks and cash held in trust. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash for the purpose of the statement of cash flows.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risk and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amount and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Non-derivative financial instruments:

Non-derivative financial instruments include cash, trade and other receivables, accounts payable and accrued liabilities and secured debentures. Non-derivative financial instruments are recognized initially at fair value. Subsequent to the initial recognition, non-derivative financial instruments are designated into one of the following categories and measured as described below.

(i) Financial assets and liabilities at fair value through profit or loss: Financial assets and liabilities at fair value though profit or loss are either "held for trading" or have been "designated at fair value through profit of loss". In both cases the financial assets and financial liabilities are measured at fair value with changes in fair value recognized in the statement of comprehensive loss. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

The Company has designated its cash in this category.

(ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of trade and other receivables and are included in current assets due to their short-term nature. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iii) Other financial liabilities: Other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's other financial liabilities are comprised of accounts payable and accrued liabilities and the secured debenture.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Property and equipment and exploration and evaluation assets

(a) Recognition and measurement:

(i) Exploration expenditures and exploration and evaluation assets ("E&E"):

Pre-license costs are recognized in the statement of comprehensive loss as incurred.

All costs associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, exploration and evaluation drilling, and sampling and appraisals.

When an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment and the carrying value, net of impairment, if any, is transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable and the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive loss as exploration and evaluation expense. Exploration and evaluation assets are not depreciated or depleted.

(ii) Property and equipment:

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proven reserves or, in certain CGU's, proven plus probable reserves, incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves. Costs of major development projects are excluded from the costs subject to depletion unless they are available for use. Proved plus probable reserves are estimated using independent reserve engineers and represent the estimated quantities of crude oil and natural gas to be recoverable in future years.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within "other income" or "other expenses" in the statement of comprehensive loss.

(iii) Other property and equipment:

Other property and equipment are carried at cost and depreciated over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis.

The Company uses the following depreciation rates:

Asset class	**Rate**
Furniture and fixtures	20%
Computer hardware	45%

(b) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of comprehensive loss as incurred.

Impairment

(a) Financial assets:

A financial asset not carried at fair value through profit and loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency of payments; or,
- it is probable that the borrower will enter bankruptcy or financial re-organization.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of the asset is reduced by this amount and losses are recognized in the statement of comprehensive loss through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the reversal can be related objectively to an event occurring after the impairment loss was recognized. The reversal is recognized in the statement of comprehensive loss or credited against the allowance account. Impairment losses on available for sale equity instruments are not reversed.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(b) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For other intangible assets that have indefinite lives or that are not yet available for use an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD"). Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

Share-based payments

The Company issues warrants and stock options to directors, officers and other consultants. The fair value of warrants and options granted to employees is measured at grant date, using the Black-Scholes option pricing model, and, for options, is recognized over the vesting period. The fair value of warrants are recognized as a reduction to share capital with a corresponding increase to warrants. The fair value of options are recognized as compensation expense with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date based on historical forfeitures and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the fair value of the exercised options are derecognized from contributed surplus and recognized in share capital. When warrants are exercised, the fair value of the exercised warrants are derecognized from warrants and recognized in share capital.

Modification of share purchase warrants

The Company may modify the terms of share purchase warrants originally granted. When modifications exist, the Company will maintain the original fair value of the of the share purchase warrant.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value, using a risk-free rate, of management's best estimate of expenditures required to settle the present obligation at the statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the discount rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and changes in the discount rate are capitalized and amortized over the same period as the underlying asset. Actual costs incurred upon settlement of the decommissioning liability are charged against the provision to the extent the provision was established.

Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time product enters the pipeline.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions and impairment losses recognized on financial assets.

Interest income is recognized as it accrues in the statement of comprehensive loss, using the effective interest method.

Tax

Tax expense comprises current and deferred tax. Tax expense is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants.

Investments

Investments in companies subject to significant influence other than the subsidiary are accounted for using the equity method. The equity method is a basis of accounting whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-acquisition income or loss. The amount of the adjustment is included in the determination of net (loss) income by the Company and the investment account of the Company is also increased or decreased to reflect the Company share of capital transactions and changes in accounting policies and corrections of errors. If the Company's share of losses equals or exceeds its interest, the Company discontinues recognizing its share of further losses. Profit distributions received or receivable from the investments will reduce the carrying value of the investment. Investments accounted for on the equity basis are written down to their fair value when they have a loss in value that is other than a temporary decline.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchanges rates prevailing at the transaction dates. Carrying values of the monetary assets and liabilities are translated into their Canadian dollar equivalents at the exchange rates in effect on the statement of financial position date. Gains and losses on translation or settlement are included in the statement of comprehensive loss for the current year.

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of foreign operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive loss.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of comprehensive loss in the period in which they are incurred.

Jointly controlled operations

A significant portion of the Company's oil and natural gas development and production activities are conducted through jointly controlled operations with others and accordingly, the accounts reflect only the Company's interest in such activities.

4 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 32 – "Financial Instruments: Presentation", the amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the 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 revered in the period. These amendments will 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 adoption of this interpretation did not have an impact on the Company's consolidated financial statements.

The Company has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company. The Company has not quantified the effect of the following:

IFRS 15 – "Revenue from contracts with customers", replaces International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. This IFRS becomes effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated 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. This IFRS becomes 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

5 Equity investment

The Company has suspended business negotiations with a US Private Company ("US PrivateCo.") initiated in the year ended December 31, 2011, and as at December 31, 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.

6 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	940,927
Transfers to property and equipment (note 7)	(289,052)
Foreign currency translation	42,677
Balance, December 31, 2014	924,800

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 December 31, 2014, the Company has $924,800 in E&E assets (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 transfer 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.

7 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 9)	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)
Depletion and depreciation for the year	-	(1,577)	(1,577)
Impairment loss (note 8)	(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	1,597,365	-	1,597,365
Transfer from exploration and evaluation (note 6)	289,052	-	289,052
Changes in estimate of decommissioning liabilities (note 9)	126,089	-	126,089
Foreign currency translation	(5,372)	-	(5,372)
Cost, December 31, 2014	2,487,357	18,622	2,505,979
Accumulated depletion, depreciation and impairment	(480,223)	(13,524)	(493,747)
Depreciation and depletion for the period	(106,901)	(1,419)	(108,320)
Impairment loss (note 8)	(34,828)	-	(34,828)
Carrying value, December 31, 2014	1,865,405	3,679	1,869,084

The Company's Canadian petroleum and natural gas assets continued to be shut-in during the year ended December 31, 2014.

All revenues, operating expenses, exploration and evaluation assets and oil and natural gas interests are from the wholly owned subsidiary.

8 Impairment loss

As a result of a decrease in forecast oil and natural gas prices, an indication of potential impairment was identified. Recoverable amounts for the Company's oil and gas assets were estimated based on FVLCD, calculated using the present value of the CGUs' expected future cash flows (after-tax). The primary source of cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator. The projected cash flows reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates.

Cash flow forecasts are also based on past experience, historical trends and an evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. The after-tax discount rate applied in the impairment calculation as at December 31, 2014 was 10% applied to proven reserves and 15% applied to probable reserves. Based on the assessment at December 31, 2014, the recoverable amount of the Company's Ohio, USA CGU exceeded its carrying value, and accordingly, no impairment losses were recorded.

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, which at the time was the Company's only oil and natural gas asset, had 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 charge to earnings. During the year ended December 31, 2014, the Company continued to impair its oil and natural gas assets in its Alder Flats CGU to $nil resulting in an impairment charge of $34,828.

Forecast future prices used in the impairment evaluation as at December 31, 2014 reflect benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

Year	WTI (US $/bbl)
2015	68.60
2016	83.20
2017	88.90
2018	94.60
2019	99.60
2020	104.70

Prices increase at a rate of approximately 2.0% across all products per year after 2020 until the end of the reserve life.

9 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $472,270 as at December 31, 2014 (December 31, 2013 - $358,241), of which $169,008 is current (December 31, 2013 - $113,113). The total undiscounted amount of estimated future cash flows is $490,226 (December 31, 2013 - $372,581). These payments are expected to be made over the next 6 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 1.00% - 1.57% (December 31, 2013 –1.10% - 2.40%).

	December 31, 2014	December 31, 2013
	$	$
Balance, beginning of year	**358,241**	303,851
Liabilities incurred	**90,023**	-
Revisions – changed estimates	**36,066**	50,440
Abandonment costs	**(17,982)**	-
Accretion	**5,922**	3,950
Less: current portion	**(169,008)**	(113,113)
Balance, end of year	**303,262**	245,128

10 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, the first payment was due and paid by the Company 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 December 31, 2014, the Company has incurred $135,750 of interest expense (December 31, 2013 - $45,750), of which $90,000 was incurred during the year ended December 31, 2014 (December 31, 2013 - $45,750). The Company made the required interest payment of $135,750 during the year ended December 31, 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. During the year ended December 31, 2014, 267,000 of the warrants were exercised (note 11(e)).

The Company valued the warrant feature 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	**13,270**
Balance, December 31, 2014	**734,770**

11 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 11(e))	500,000	60,000
Reallocation of fair value upon exercise of warrants (note 11(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 11(c))	183,333	34,000
Reallocation of fair value upon exercise of stock options	-	27,712
Exercise of broker warrants (note 11(f))	106,000	16,960
Reallocation of fair value upon exercise of broker warrants (note 11(f))	-	16,081
Exercise of warrants (note 11(e))	10,035,028	1,436,729
Reallocation of fair value upon exercise of warrants (note 11(e))	-	434,118
Balance, December 31, 2014	55,455,718	15,426,684

(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 11(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 11(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 11(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 11(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 11(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 year is as follows:

	December 31, 2014		December 31, 2013	
	Number of Options	**Weighted Avg. Exercise Price $**	Number of Options	Weighted Avg. Exercise Price $
Outstanding, beginning of year	**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 year	**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	3.38	0.14
0.20 – 0.29	678,000	0.63	0.20
0.30 – 0.39	515,000	1.35	0.30
0.40 – 0.49	1,900,000	4.64	0.40

As at December 31, 2014, the Company had 3,483,000 exercisable options and 1,806,667 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 $0.22 (December 31, 2013 - $0.19).

d) Share-based payment expense

During the year ended December 31, 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 year ended December 31, 2014 was $470,786 (December 31, 2013 - $52,301), of which $286,372 has been recorded in the statement of comprehensive loss (December 31, 2013 - $44,114) and $184,414 has been capitalized as exploration and evaluation assets (December 31, 2013 - $8,187), 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	1,361,736	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	2.05
Warrants issued pursuant to Private Placement (iv)	4,068,613	0.25	837,179	1.30
Share issue costs (iv)	-	-	(54,923)	-
Exercise of warrants	(10,035,028)	-	(434,118)	-
Warrants expired unexercised	(1,489,273)	-	(131,949)	-
Balance, December 31, 2014	7,995,540	0.226	903,243	1.19

(i) As part of the units issued on May 3, 2013 (note 11(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 11(b)(i)).

(ii) As part of the units issued on October 25, 2013 (note 11(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 11(b)(ii)).

(iii) As part of the units issued on January 17, 2014 (note 11(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 ($0.12 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 11(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 11(b)(iv)).

The fair value of the warrants issued 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

On April 28, 2014, approval was received to extend the expiry date of 1,025,885 share purchase warrants from May 3, 2014 to May 3, 2015. All other terms and conditions will remain the same.

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	0.28
Exercise of broker warrants	(106,000)	-	(16,081)	-
Balance, December 31, 2014	**119,720**	**0.16**	**17,381**	**0.28**

(i) During the year ended December 31, 2014, the Company issued 225,720 (note 11(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 1 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

	December 31, 2014	December 31, 2013
	$	$
Balance, beginning of year	**2,378,945**	1,428,647
Share-based payment expense (note 11(d))	**286,372**	44,114
Capitalized share-based payment (note 11(d))	**184,414**	8,187
Exercise of stock options	**(27,712)**	-
Expiry of warrants (note 11(e))	**131,949**	897,997
Exercise of broker warrants (note 11(f))	**(16,081)**	-
Broker warrants (note 11(f)(i))	**33,462**	-
Balance, end of year	**2,971,349**	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.

12 Income tax

Income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 25.00% (December 31, 2013 – 25.00%) to income before income taxes as follows:

	December 31,2014	December 31,2013
	$	$
Expected income tax provision	**(234,824)**	(235,918)
Increase (decrease) resulting from:		
Share-based payments	**71,593**	11,029
Non-deductible portion of capital loss	**-**	4,843
Foreign exchange and other	**9,555**	767
Share issue costs	**(21,104)**	(8,593)
Change in estimates	**4,843**	78
Change in deferred tax asset not recognized	**169,937**	219,174
	-	(8,620)

Significant components of the deferred tax are as follows:

	December 31,2014	December 31,2013
	$	$
Property and equipment	**(142,889)**	(148,179)
Non-capital loss carried forward	**(1,158,390)**	(1,017,094)
Contingent liability	**-**	(14,351)
Capital loss carried forward	**(257,375)**	(262,218)
Decommissioning liabilities	**(118,068)**	(89,560)
Share issue costs	**(33,575)**	(28,594)
Other	**(16,319)**	-
Debenture	**3,808**	7,125
Deferred tax asset not recognized	**1,722,808**	1,552,871
	-	-

The Company has estimated tax pools totaling:

	Rate of Claim	**December 31,2014**	December 31,2013
		$	$
Canadian development expense	30%	**14,308**	14,308
Canadian oil and gas property expense	10%	**476,499**	467,104
Foreign resource expenditures	10%	**2,566,545**	222,061
Undepreciated capital cost	Various	**116,402**	116,402
Share issue costs		**134,300**	114,377
Non-capital loss carry forward		**4,633,561**	4,068,377
Capital loss carry forward		**2,059,000**	2,097,742
		10,000,615	7,100,371

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

13 Related party transactions

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

a) An aggregate of $265,875 (December 31, 2013 - $146,950) in consulting fees 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. Additionally an aggregate of $208,322 (December 31, 2013 - $73,983) in consulting fees and related costs were paid to certain directors and officers of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

b) An aggregate of $15,063 (December 31, 2013 - $45,063) is accrued as a liability to officers and directors who resigned from the Company in 2012.

c) An aggregate of $nil (December 31, 2013 - $2,990) was paid to a director and officer of the Company as prepayment for expenses to be incurred and is included in deposits and prepaid expenses.

d) Aggregate legal fees of $90,621 (December 31, 2013 - $65,229) were charged by a law firm in which a director of the Company is a partner, of which $77,563 (December 31, 2013 - $30,856) were expensed as general and administrative expenses and $13,058 (December 31, 2013 - $34,373) were charged to share capital as share issue costs.

e) The Company has trade and other receivables of $90,786 (December 31, 2013 - $88,502) owing from companies where a director is a shareholder.

f) The Company has recorded an allowance for doubtful accounts of $90,786 (December 31, 2013 - $43,129) owing from a private companies in which a director of the company is a shareholder.

g) As at December 31, 2014, the Company has accounts payable and accrued liabilities totaling $66,129 (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.

Key management compensation

Key management includes the Company's executive management.

	December 31, 2014	December 31, 2013
	$	$
Compensation	**343,375**	190,950
Share based payments	**148,127**	11,999
Total	**491,502**	202,949

A portion of the key management compensation of $265,875 (December 31, 2013 - $146,950) has been paid through consulting fees, which are included in note 13(a).

14 Financial risk management

(a) Fair values:

The fair value of cash, 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 December 31, 2014, the Company's cash 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 trade and other receivables represents the maximum credit exposure.

As at December 31, 2014, the Company had cash of $96,150 (December 31, 2013 - $644,549), all of which is deposited with one major Canadian financial institution (December 31, 2013 - $607,049) and $nil (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 December 31, 2014, the Company's accounts receivable consisted of $146,120 (December 31, 2013 - $60,819) from petroleum and natural gas companies and $7,016 (December 31, 2013 - $7,716) related to goods and service tax owing from the Government of Canada. The Company is not subject to concentration risk. 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; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

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

	December 31, 2014	December 31, 2013
Days outstanding	**$**	$
0-30 days	**112,758**	16,917
31-60 days	**34,305**	-
61-90 days	-	8,625
Greater than 90 days	**6,073**	42,993
Total	**153,136**	68,535

At December 31, 2014, the Company has an allowance for $108,408 (December 31, 2013 - $43,129) of trade and other receivables that were deemed to be uncollectible. During the year ended December 31, 2014, certain creditors forgave $125,680 of liabilities (December 31, 2013 - $nil) including $68,276 for old amounts payable and $57,404 related to a disputed joint interest billing (note 16(b))

(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 December 31, 2014, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $288,368 (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 future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as oil and natural gas prices are impacted by world economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when deemed appropriate. The Company did not have any commodity price contracts in place as at or during the year ended December 31, 2014 and 2013. A $1.00 per bbl change in commodity process would have a nominal impact on petroleum and natural gas sales.

(ii) Foreign currency risk:

Foreign currency exchange rate 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 projects. Although the Company currently does not sell any oil or natural gas in foreign currencies, the underlying market prices in Canada for oil and natural gas fluctuate with changes in the exchange rate between the Canadian and the United States dollar, thus exposing the Company to foreign currency exchange risk. 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 during the period would not have a material impact on the Company's loss for the year.

As at December 31, 2014 and December 31, 2013 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 year.

The Company has no interest rate swaps or financial contracts in place as at or during the year ended December 31, 2014 or December 31, 2013.

15 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 December 31, 2014, the working capital ratio was 0.91:1 (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.

16 Commitments

a) The Alberta Energy Regulator ("AER") has an industry wide program to measure all operating companies Licensee Liability Rating ("LLR"). The LLR program is established by the AER to prevent the costs to abandon, remediate and reclaim a well or facility from becoming the responsibility of the public of Alberta. The program measures the ratio of deemed well and facility assets divided by deemed well and facility Liabilities and if the ratio is below 1.0 a deposit is required. Included in deposits and prepaid expenses is an amount of $166,290 on deposit with the Alberta Energy Regulator ("AER") associated with six shut-in wells at Alder Flats, Alberta.

In August 2010 the Company sold fifteen gas properties to a PrivateCo. but contractually remains the licensee of record for these wells and is deemed to be the operator by AER. The Company and PrivateCo were unable to pay a large increase in deposits introduced by AER in March of 2013 that resulted in an abandonment order by AER in June of 2013 requiring the shut-in of all producing wells of PrivateCo.

In February, 2014 the AER, at the urging of small operators, 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. In May, 2014 the Company and PrivateCo. were accepted into the Plan, which allows the Company and the PrivateCo. to turn wells back on production, optimize production, transfer wells to other operators, sell properties to other operators that have a positive LLR, abandon wells, and apply for a change in licensing and liability rating status to facilities. The Company in conjunction with PrivateCo. provides monthly updates to AER to indicate progress in meeting the defined asset liability ratio. Since being accepted into the plan the Company and PrivateCo. have been successful in moving its LLR ratio from 0.11 in June of 2014 to 0.42 in December, 2014 and subsequently to 0.79 at the end of March, 2015. This has been accomplished by various initiatives including transferring the operatorship in a well to another company and the de-licensing of a multi-well battery.

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. The Company disputed the joint interest billing from the time it was received but did recognize an amount of $57,404 in accrued liabilities in recognition of a potential liability for this amount. During 2014 as the result of a settlement agreement with the unrelated party, the Company has reduced its accrued liability obligation to $nil.

17 Subsequent Events

Subsequent to December 31, 2014, the Company entered into the following transactions:

a) On April 1, 2015, the Company granted 550,000 stock options to directors, officers, employees and consultants of the Company in accordance with the Plan at an exercise price of $0.15 per common share. The stock options vest one-third immediately and one-third on each of the first and second anniversaries of the grant date and expire after 5 years from the grant date.

b) On March 30, 2015, the Company completed a private placement, issuing 5,001,967 units (the "Units) at $0.15 per Unit for aggregate gross proceeds of $750,295. Each Unit 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. In connection with the private placement, the Company incurred cash commissions of $6,300 and issued 42,000 broker units. Each broker unit entitles the holder thereof to purchase one common share of the Company for $0.15 per common share for a period of 12 months from the date of issuance.