Marksmen Energy Inc.

Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

(Audited)

Independent Auditors' Report

To the Shareholders of Marksmen Energy Inc.

We have audited the accompanying consolidated financial statements of Marksmen Energy Inc. which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive loss, changes in deficit and cash flows for the years then ended, and notes, comprising 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 audits 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 in our audits obtained 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 consolidated financial position of Marksmen Energy Inc. as at December 31, 2015 and 2014 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty which may cast significant doubt about the ability of Marksmen Energy Inc. to continue as a going concern.

MNP LLP

April 28, 2016
Calgary, AB

Chartered Professional Accountants

MNP LLP

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

(Canadian $)	December 31, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash	138,987	96,150
Trade and other receivables (note 15(b))	35,511	153,136
Deposits and prepaid expenses	127,441	166,290
Total Current Assets	301,939	415,576
Exploration and evaluation (note 6)	1,770,835	924,800
Property and equipment (note 7)	1,911,457	1,869,084
TOTAL ASSETS	**3,984,231**	**3,209,460**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	420,369	288,368
Decommissioning liabilities (note 9)	228,757	169,008
Total Current Liabilities	649,126	457,376
Decommissioning liability (note 9)	124,828	303,262
Secured debentures (note 10)	1,226,165	734,770
	2,000,119	**1,495,408**
SHAREHOLDERS' EQUITY		
Share capital (note 11(b))	16,242,351	15,426,684
Warrants (note 11(e))	1,097,773	903,243
Contributed surplus (note 11(g))	3,461,843	2,971,349
Accumulated other comprehensive income	799,371	132,215
Deficit	(19,617,226)	(17,719,439)
	1,984,112	**1,714,052**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**3,984,231**	**3,209,460**

Going concern (note 1)
Subsequent events (note 13)

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:

(Canadian $)	December 31, 2015	December 31, 2014
REVENUE		
Petroleum and natural gas sales	353,593	509,680
Royalties	(45,781)	(64,936)
	307,812	**444,744**
EXPENSES		
Production and operating expenses	135,294	95,121
Depletion and depreciation (note 7)	265,074	108,320
Consulting fees	215,775	291,399
Professional fees	205,906	231,931
Investor relations and conferences	104,043	81,111
Filing and listing costs	37,386	66,296
Ohio administrative costs	27,789	84,390
General and administrative	181,623	172,052
Share-based payments (note 11(d))	230,001	286,372
Loss from operations	**(1,095,079)**	**(972,248)**
FINANCE INCOME (EXPENSE)		
Interest expense	(122,219)	(90,000)
Derecognition of liabilities (note 15)	68,883	60,401
Foreign exchange	(160,486)	116,570
Accretion of secured debentures (note 10)	(18,341)	(13,270)
Accretion of decommissioning liabilities (note 9)	(5,767)	(5,922)
	(237,930)	**67,779**
OTHER (EXPENSES) INCOME		
Impairment expense (note 7 and note 8)	(640,351)	(34,828)
Recovery of abandonment estimates (note 9)	68,298	-
	(572,053)	**(34,828)**
LOSS AND COMPREHENSIVE LOSS BEFORE INCOME TAXES	**(1,905,062)**	**(939,297)**
Deferred tax recovery	7,275	-
NET LOSS AND COMPREHENSIVE LOSS	**(1,897,787)**	**(939,297)**
Other comprehensive income that may subsequently be transferred to net loss		
Currency translation adjustment	667,156	55,315
NET LOSS AND COMPREHENSIVE LOSS	**(1,230,631)**	**(883,982)**
Basic and diluted loss per share (note 11(h))	(0.02)	(0.02)
Weighted average number of common shares outstanding during the year	60,485,588	48,586,878

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

Marksmen Energy Inc.

Consolidated Statements of Changes in Equity (Deficit)

(Canadian $)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
BALANCE AS AT DECEMBER 31, 2013	12,965,740	623,988	2,378,945	(16,780,142)	76,900	(734,569)
Loss for the year	-	-	-	(939,297)	-	(939,297)
Translation differences on foreign subsidiaries	-	-	-	-	55,315	55,315
Units issued pursuant to private placement	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 AS AT DECEMBER 31, 2014	15,426,684	903,243	2,971,349	(17,719,439)	132,215	1,714,052
Loss for the year	-	-	-	(1,897,787)	-	(1,897,787)
Translation differences on foreign subsidiaries	-	-	-	-	667,156	667,156
Units issued pursuant to private placement	787,022	283,988	-	-	-	1,071,011
Cash share issue costs	(16,351)	(7,357)	-	-	-	(23,708)
Broker warrants issued	(2,570)	(1,637)	4,207	-	-	-
Share-based payments	-	-	388,719	-	-	388,719
Warrants issued pursuant to secured debenture	-	26,946	-	-	-	26,946
Exercise of warrants	44,999	-	-	-	-	44,999
Reallocation of warrant fair value on exercise	2,567	(2,567)	-	-	-	-
Reallocation of warrant fair value on expiry	-	(104,843)	104,843	-	-	-
Deferred tax liability on secured debenture	-	-	(7,275)	-	-	(7,275)
BALANCE AS AT DECEMBER 31, 2015	16,242,351	1,097,773	3,461,843	(19,617,226)	799,371	1,984,112

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

Marksmen Energy Inc.

Consolidated Statements of Cash Flows

(Canadian $)	December 31, 2015	December 31, 2014
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	(1,897,787)	(939,297)
Abandonment costs paid	(87,622)	(17,982)
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation	265,074	108,320
Accretion of decommissioning liabilities	5,767	5,922
Accretion of secured debentures	18,341	13,270
Impairment expense	640,351	34,828
Derecognition of liabilities	(68,883)	(60,401)
Future income tax recovery	(7,275)	-
Share-based payments	230,001	286,372
Change in trade and other receivables	123,045	5,370
Change in deposits and prepaid expenses	40,432	(11,225)
Change in accounts payable and accrued liabilities	(35,307)	(271,752)
CASH FLOW USED IN OPERATING ACTIVITIES	**(773,863)**	**(846,575)**
INVESTING ACTIVITIES		
Expenditures on property and equipment	(583,870)	(1,597,365)
Expenditures on exploration and evaluation	(678,622)	(756,514)
Change in non-cash working capital	228,285	(97,203)
CASH FLOW USED IN INVESTING ACTIVITIES	**(1,034,207)**	**(2,451,082)**
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs	1,047,302	1,374,128
Proceeds from exercise of warrants	44,999	1,436,729
Proceeds from exercise of stock options	-	34,000
Proceeds from exercise of broker warrants	-	16,960
Proceeds from secured debenture	500,000	-
Change in non-cash working capital	-	(130,570)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	**1,592,301**	**2,731,247**
Foreign exchange effect on cash and cash equivalents	258,606	18,011
Increase (decrease) in cash	42,837	(548,399)
Cash, beginning of year	96,150	644,549
CASH, END OF YEAR	**138,987**	**96,150**

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, 2015, the Company had not yet achieved profitable operations, had accumulated a deficit of $19,617,226 since its inception (December 31, 2014 - $17,719,439), working capital deficiency of $347,187 (December 31, 2014 – of $41,800), negative cash flow from operations of $842,161 (December 31, 2014 - $846,575) 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 three private placements during the year ended December 31, 2015 (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, 2015. The Board of Directors approved the statements on April 28, 2016.

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.

Significant judgments

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. The Company has identified two CGUs, Ohio USA and Alder Flats, Alberta.

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 gas properties. 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 consolidated 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

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 payments

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 depletion and 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 of disposal and its value in use. The Company used the calculation of fair value less costs of disposal to determine the fair value of its CGU’s. In determining the fair value less costs of disposal, 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 consolidated 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 consolidated 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 consolidated 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 debentures.

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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 is measured at the 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 consolidated 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 consolidated statement of comprehensive loss, using the effective interest method.

Tax

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated 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.

Loss per share

Basic lossper 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.

Compound Financial Instruments

Compound financial instruments issued by the Company are comprised of borrowing that have both a liability and equity component. The liability component of the compound financial instrument is recognized initially at fair value. The equity component is recognized as the difference between the proceeds received from the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to the initial recognition.

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 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 consolidated statement of financial position date. Gains and losses on translation or settlement are included in the consolidated 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 consolidated 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 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, 2018 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 of the new standard on the consolidated financial statements.

IFRS 16 – “Leases” was issued January 2016 and replaces IAS 17 Leases. The standard introduces a single lessee accounting model for leases with required recognition of assets and liabilities for most leases. The standard is effective for fiscal years beginning on or after January 1, 2019 with early adoption permitted if the Company is also applying IFRS 15 – “Revenue from Contracts with Customers”. IFRS 16 will be adopted by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the consolidated financial statements.

5 Equity investment

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.

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, 2015, 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.

6 Exploration and evaluation

	For the year ended December 31, 2015	For the year ended December 31, 2014
Balance, beginning of year	924,800	230,248
Expenditures on exploration and evaluation assets	706,566	940,927
Transfers to property and equipment (note 7)	-	(289,052)
Foreign exchange translation	139,469	42,677
BALANCE, END OF YEAR	**1,770,835**	**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, 2015, the Company has $1,770,835 in E&E assets (December 31, 2014 - $924,800). 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

	For the year ended December 31, 2015	For the year ended December 31, 2014
Petroleum and natural gas assets	3,535,089	2,487,357
Corporate assets	19,683	18,622
Property and equipment at cost	3,554,772	2,505,979
Accumulated depletion and depreciation	(1,643,315)	(636,895)
PROPERTY AND EQUIPMENT NET CARRYING AMOUNT	**1,911,457**	**1,869,084**

Petroleum and natural gas assets

COST	For the year ended December 31, 2015	For the year ended December 31, 2014
Balance, beginning of year	2,487,357	480,223
Additions	713,583	1,597,365
Transfers from exploration and evaluation (note 6)	-	289,052
Change in estimate of decommissioning liabilities (note 9)	(52,914)	126,089
Foreign currency translation	387,063	(5,372)
BALANCE, END OF YEAR	**3,535,089**	**2,487,357**
ACCUMULATED DEPLETION		
Balance, beginning of year	(621,952)	(480,223)
Depletion	(263,879)	(106,901)
Impairment loss	(640,351)	(34,828)
Foreign currency translation	(100,995)	-
BALANCE, END OF YEAR	(1,627,177)	(621,952)
NET CARRYING AMOUNT, END OF YEAR	**1,907,912**	**1,865,405**

The Company's Canadian petroleum and natural gas assets continued to be shut-in during the year ended December 31, 2015.

Corporate assets

COST	For the year ended December 31, 2015	For the year ended December 31, 2014
Balance, beginning of year	18,622	18,622
Additions	1,061	-
BALANCE, END OF YEAR	**19,683**	**18,622**
ACCUMULATED DEPRECIATION		
Balance, beginning of year	(14,943)	(13,524)
Depreciation	(1,195)	(1,419)
BALANCE, END OF YEAR	(16,138)	(14,943)
NET CARRYING AMOUNT, END OF YEAR	**3,545**	**3,679**

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. 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 discount rate applied in the impairment calculation as at December 31, 2015 was 10% applied to proven reserves and 15% applied to probable reserves. The FVLCD estimates are categorized as level 3 according to the IFRS 13 fair value hierarchy. Based on the assessment at December 31, 2015, the carrying value of the Company's Ohio, USA CGU exceeded its recoverable value by $632,358, and accordingly, an impairment for this amount was recorded. The discount rate applied is the most sensitive assumption in the calculation of impairment. If the discount rate were increased by 5%, the impairment loss would increase by approximately $315,833.

During the year ended December 31, 2014, 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 $34,828 charge to loss. During the year ended December 31, 2015, the Company continued to impair its oil and natural gas assets in its Alder Flats CGU to $nil resulting in an impairment charge of $7,993.

Forecast future prices used in the impairment evaluation as at December 31, 2015 reflect benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

	Light Oil
2016	56.60
2017	66.40
2018	72.80
2019	80.90
2020	83.20

Prices increase at a rate of approximately 2.0% across all products per year after 2021 until the end of the reserve life.

9 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $353,585 as at December 31, 2015 (December 31, 2014 - $472,270), of which $228,757 is current (December 31, 2014 - $169,008). The total undiscounted amount of estimated future cash flows is $359,808 (December 31, 2014 - $490,226). These payments are expected to be made over the next 8 years. The obligations have been calculated using an inflation rate of 2% (December 31, 2014 – 2%) and a discount factor, being the risk-free rate related to the liability, of 0.48% - 2.03% (December 31, 2014 –1.00% - 1.57%). The obligations on the US properties have been calculated using an inflation rate of 2% (December 31, 2014 – 2%) and a discount factor, being the risk free rate related to the liability of 1.31% - 2.18% (December 31, 2014 – 1.00% - 1.57%).

During the year ended December 31, 2015, the Company completed the abandonment of substantially all of its Canadian petroleum and natural gas assets. Reclamation of these assets has not yet occurred. The Company recorded an abandonment recovery of $68,298 as the estimated capitalized abandonment costs were previously impaired. This gain is included in the "change in estimates" line item below.

	For the year ended December 31, 2015	For the year ended December 31, 2014
Balance, beginning of year	472,270	358,241
Liabilities incurred	10,173	90,023
Change in estimate	(63,086)	36,066
Abandonment costs	(87,622)	(17,982)
Accretion expense	5,767	5,922
Foreign currency translation	16,083	-
Less: current portion	(228,757)	(169,008)
BALANCE, END OF YEAR	**124,828**	**303,262**

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, 2015, the Company has incurred $225,750 of interest expense (December 31, 2014 - $135,750), of which $90,000 was incurred during the year ended

December 31, 2015 (December 31, 2014 - $90,000). Pursuant to the original Debenture agreement (the "Original Agreement"), the Debenture matures on January 31, 2016. However, on June 19, 2015, the terms of the Original Agreement were revised to extend the maturity date until December 31, 2018 and to extend the expiry date of the share purchase warrants until June 28, 2018. The net present value of the future cash flows under the extended term were not greater than 10% of the net present value of the remaining cash flows immediately prior to the extension. The extension does not represent a significant modification to the original instrument. All other terms and conditions remain unchanged.

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 (which was extended until June 28, 2018). During the year ended December 31, 2015, 264,700 of the warrants were exercised (December 31, 2014 - 267,000) (note 11(e)).

The Company valued the warrant feature of the debenture using the residual method (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.

On June 19, 2015, the Company closed an additional secured debenture (the "Debenture B") for gross proceeds of $500,000. The funds received under the Debenture B will be deployed towards the continued developed of the Company's projects The Debenture B bears interest of 12% per annum, with the first payment due and payable by the Company on December 31, 2015, with each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2015. As of December 31, 2015, the Company has incurred $32,219 of interest expense, which was paid in full. The Debenture B matures on December 31, 2018. The Company may, at any time, repay the Debenture B 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 B agreement, the Debenture B holder may demand repayment of the Debenture B or accelerate the date for payment. Security for the Debenture B includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

Pursuant to the Debenture B, the Company issued to the Debenture B holder 1,777,778 share purchase warrants. Each warrant is exercisable into one common share of the Company at a price of $0.25 per common share until the expiry date of December 31, 2018.

The Company valued the warrant feature of the Debenture B using the Residual Method. The liability component was $473,054 and the equity component was $26,946, which net of tax is $19,671.

	Secured Debentures
Balance, December 31, 2013	721,500
Accretion of secured debenture	13,270
Balance, December 31, 2014	734,770
Issue of secured debenture	500,000
Issue of debenture warrants (note 11(e))	(26,946)
Accretion of secured debentures	18,341
Balance, December 31, 2015	**1,226,165**

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	Amount
Balance, December 31, 2013	36,009,132	12,965,740
Shares issued pursuant to private placement (i)	985,000	60,059
Shares issued pursuant to private placement (ii)	8,137,225	464,777
Share issue costs (ii)	-	(29,492)
Exercise of stock options (note 11(c))	183,333	34,000
Reallocation of stock option fair value on exercise	-	27,712
Exercise of broker warrants (note 11(f))	106,000	16,960
Reallocation of broker warrant fair value on exercise	-	16,081
Exercise of warrants (note 11(e))	10,035,028	1,436,729
Reallocation of warrant fair value on exercise	-	434,118
Balance, December 31, 2014	**55,455,718**	**15,426,684**
Shares issued pursuant to private placement (iii)	5,001,967	517,460
Shares issued pursuant to private placement (iv)	1,300,767	143,962
Shares issued pursuant to private placement (v)	1,570,000	125,600
Share issue costs (vi)	-	(18,921)
Exercise of warrants (note 11(e))	264,700	44,999
Reallocation of warrant fair value on exercise	-	2,567
Balance, December 31, 2015	**63,593,152**	**16,242,351**

i) On January 17, 2014, the Company completed a private placement, issuing 985,000 units ("Unit A") at $0.125 per Unit A for aggregate proceeds of $123,125. 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 $0.18 per common share for a period of 36 months from issuance, which was valued at $63,066 (note 11(e)(i)).

ii) On April 28, 2014, the Company completed a private placement, issuing 8,137,225 units ("Unit B") at $0.16 per Unit B for aggregate proceeds of $1,301,956. 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 $0.25 per common share for a period of 24 months from issuance, which was valued at $837,179 (note 11(e)(ii)).

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.

iii) On March 30, 2015, the Company completed a private placement, issuing 5,001,967 units ("Unit C") at $0.15 per Unit C for aggregate proceeds of $750,295. 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 $0.25 per common share for a period of 24 months from issuance, which was valued at $232,813 (note 11(e)(iii)).

iv) On June 25, 2015 and August 4, 2015, the Company completed the first and second closing of a larger private placement, issuing 649,100 units and 651,667 units ("Unit D"), respectively, at $0.15 per Unit D for aggregate proceeds of $195,116. 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 an aggregate of $51,402 (note 11(e)(iv)).

v) On December 30, 2015, the Company closed a private placement, issuing 1,570,000 common shares at $0.08 per common share for total proceeds of $125,600.

vi) In connection with the private placements, the Company incurred cash share issue costs of $23,708 of which $16,351 was allocated to share capital and $7,357 was allocated to warrants. 58,080 broker warrants were also issued, valued at $4,207 (note 11(f)(ii)). $2,570 of the broker warrants value was allocated to share capital and $1,637 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, employee or 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:

	For the year ended December 31, 2015		For the year ended December 31, 2014	
	Number	Weighted Average Exercise Price ($)	Number	Weighted Average Exercise Price ($)
Balance, beginning of the year	5,289,667	0.26	2,913,000	0.18
Granted	1,590,000	0.10	2,560,000	0.34
Expired	(678,000)	(0.20)	-	-
Exercised	-	-	(183,333)	(0.19)
BALANCE, END OF YEAR	**6,201,667**	**0.22**	**5,289,667**	**0.26**

Exercise price ($)	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price ($)	Options exercisable	Weighted average exercise price ($)
0.00 - 0.09	1,040,000	4.93	0.08	346,666	0.08
0.10 - 0.19	2,746,667	2.76	0.14	2,160,000	0.14
0.30 - 0.39	515,000	0.35	0.30	515,000	0.30
0.40 - 0.49	1,900,000	3.64	0.40	1,266,667	0.40

As at December 31, 2015, the Company had 4,288,333 exercisable options and 1,913,334 options granted but not yet vested (December 31, 2014 – 3,483,000 and 1,806,667, respectively). The weighted average exercise price of the exercisable options is $0.23 (December 31, 2014 - $0.22).

d) Share-based payment

During the year ended December 31, 2015, the Company granted 1,590,000 stock options (December 31, 2014 – 2,560,000) consistent with the Plan. The options granted are exercisable at a weighted average of $0.10 per option (December 31, 2014 - $0.34) and expire 5 years after the grant date (December 31, 2014 – 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.

	For the year ended December 31, 2015	For the year ended December 31, 2014
Risk-free interest rate	0.57%	1.25%
Expected life	2.5 years	2.5 years
Expected volatility	163.28%	163.28%
Fair value per option	$0.07	$0.34
Forfeiture rate	14.27%	19.31%
Dividend yield	-	-

Share-based payments expense recognized during the year ended December 31, 2015 was $388,718 (December 31, 2014 - $470,786), of which $230,001 has been recorded in the consolidated statement of comprehensive loss (December 31, 2014 - $286,372) and $158,717 has been capitalized as exploration and evaluation (December 31, 2014 - $184,414), 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, 2013	14,958,728	0.18	623,988	0.88
Warrants issued pursuant to private placement (note 11(b)(i))	492,500	0.18	63,066	2.05
Warrants issued pursuant to private placement (note 11b(iI))	4,068,613	0.25	837,179	1.30
Share issue costs (note 11(b)(ii))	-	-	(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	0.23	903,243	1.19
Warrants issued pursuant to private placement (note 11(b)(iii))	2,500,984	0.25	232,835	1.22
Warrants issued pursuant to private placement (note 11(b)(iv))	650,384	0.25	51,154	1.54
Warrants issued pursuant to secured debenture (note 10)	1,777,778	0.25	26,946	3.00
Share issue costs (note 11(b)(vi))	-	-	(8,994)	-
Exercise of warrants	(264,700)	(0.17)	(2,567)	-
Warrants expired unexercised	(950,885)	(0.30)	(104,843)	-
Balance, December 31, 2015	**11,709,100**	**0.23**	**1,097,773**	**1.39**

(i) As part of the units issued on January 17, 2014 (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 $0.18 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.

(ii) As part of the units issued on April 28, 2014 (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 $0.25 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)(ii)).

(iii) As part of the units issued on March 30, 2015 (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 $0.25 for a period of 24 months from the date of closing. A value of $232,835 ($0.09 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 $3,820 were allocated to warrants (note 11(b)(vi)).

(iv) As part of the units issued on June 25, 2015 and August 4, 2015 (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 $51,154 ($0.08 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 $5,174 were allocated to warrants (note 11(b)(vi)).

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:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Risk-free interest rate	0.44%	1.06%
Expected life	2.00 years	2.11 years
Expected volatility	158.18%	255.95%
Fair value per warrant	$0.09	$0.20

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 remained the same. On June 19, 2015, approval was received to extend the expiry date of 2,399,667 share purchase warrants from February 28, 2016 to June 28, 2018 (note 10). All other terms and conditions will remain the same.

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price ($)	Amount($)	Weighted Average Expiry Date
Balance, December 31, 2013	-	-	-	-
Broker warrants issued on private placement (note 11(b)(ii))	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
Broker warrants issued on private placement (note 11e(iii)(iv))	58,080	0.15	4,207	0.29
Broker warrants expired unexercised	(119,720)	0.16	(17,381)	(0.28)
Balance, December 31, 2015	**58,080**	**0.15**	**4,207**	**0.29**

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

(ii) During the year ended December 31, 2015, the Company issued 58,080 (note 11(b)(vi)) 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 $0.15 per common share for a period of 1 year from the date of closing. The broker warrants were valued at $4,207 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:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Risk-free interest rate	0.49%	1.07%
Expected life	1.00 year	1.00 year
Expected volatility	149.86%	161.26%
Fair value per broker warrant	$0.07	$0.15

g) Contributed surplus

	For the year ended December 31, 2015	For the year ended December 31, 2014
Balance, beginning of the year	2,971,349	2,378,945
Share-based payments (note 11(d))	230,001	286,372
Capitalized share-based payments (note 11(d))	158,717	184,414
Exercise of stock options	-	(27,712)
Expiry of warrants (note 11(e))	104,843	131,949
Exercise of broker warrants (note 11(f))	-	(16,081)
Broker warrants (note 11(f))	4,207	33,462
Deferred tax liability on Debenture B (note 10)	(7,275)	-
BALANCE, END OF YEAR	**3,461,843**	**2,971,349**

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 26.00% (December 31, 2014 – 25.00%) to income before income taxes as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Net loss before taxes	(1,905,062)	(939,297)
Combined federal and provincial tax rate	26%	25%
Computed "expected" tax	(495,316)	(234,824)
Increase (decrease) in taxes resulting from:		
Share-based payments	59,800	71,593
Change in deferred tax asset not recognized	428,241	163,231
	(7,275)	-

Details of deferred tax assets (liabilities) are as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Deferred tax assets (liabilities)		
Debenture - Canada	(6,435)	(3,808)
Non-capital losses - Canada	6,435	3,808
Oil and gas properties - US	(665,079)	(570,106)
Non-capital losses - US	665,079	570,106
Deferred tax assets (liabilities)	-	-

Details of the unrecognized deductible temporary differences are as follows:

	For the year ended December 31, 2015	For the year ended December 31, 2014
Decommissioning liability - Canada	237,543	388,939
Capital losses - Canada	2,059,000	2,059,000
Non-capital losses - Canada	5,511,924	4,618,330
Oil and gas properties - Canada	641,877	1,403,205
Share issue costs - Canada	69,189	134,300
Other - Canada	-	65,279
Decommissioning liability - US	116,044	83,324
Net operating losses - US	1,111,573	71,775
Unrecognized deductible temporary differences	9,747,150	8,824,152

At this stage of the Company's development, it cannot be reasonably estimated that there will be future taxable profits, accordingly there were no deferred income tax assets recognized.

The Company has estimated tax pools totaling:

	Rate of Claim	For the year ended December 31, 2015	For the year ended December 31, 2014
Canadian development expense	30%	22,301	14,308
Canadian oil and gas property expense	10%	476,505	476,499
Foreign resource expenditures	10%	1,590,565	2,566,545
Undepreciated capital cost	Various	117,464	116,402
Share issue costs		69,189	134,300
Non-capital loss carry forward - Canada		5,535,757	4,063,456
Net operating loss carry forward - US		3,067,689	570,105
Capital loss carry forward		2,059,000	2,059,000
		12,938,470	**10,000,615**

The accumulated non-capital loss carry forwards expire between 2029 and 2035.

13 Commitments

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.

In August 2010 the Company sold fifteen gas properties to 1528810 Alberta Ltd in which there are two common directors between the Company and the 1528810 Alberta Ltd. Upon the sale of the properties, the Company retained a 1% interest in the properties, remained the licensee of record for these wells and is deemed to be the operator by AER. The Company does not include in its records the amount the AER requires for deposit pursuant to the LLR program related to these properties. The Company does not charge PrivateCo a management fee for the operation of these properties.

At December 31, 2015, included in deposits and prepaid expenses is an amount of $106,681 on deposit with the AER associated with the Company's operated wells in Alberta (December 31, 2014 - $166,290). During the year ended December 31, 2015, the Company abandoned four wells in Alder Flats, Alberta, which resulted in a refund of $70,429 in the amount on deposit with the AER.

The Company continues to reduce its overall deemed liabilities and to continue to improve its LLR ratio. Subsequent to the year ended December 31, 2015 the Company, along with other oil and gas companies, negotiated a change in the methodology used by AER to calculate the deemed liabilities of shallow gas wells. This resulted in a refund in February 2016 to the Company of $67,785, thereby reducing the deposit to $38,896.

14 Related party transactions

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

a) An aggregate of $215,775 (December 31, 2014 - $265,875) in consulting fees were paid to professional corporation owned by a director and officer of the Company for compensation as CEO of the Company as well as for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of $164,747 (December 31, 2014 - $208,322) in consulting fees and related costs were paid to a director and officer, Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

b) An aggregate of $nil (December 31, 2014 - $15,063) is accrued as a liability to officers and directors who resigned from the Company in 2012. During the year ended December 31, 2015, the Company reversed the $15,063 related to the resigned directors and is included in the derecognized liabilities included in the consolidated statement of comprehensive loss.

c) Aggregate legal fees of $93,177 (December 31, 2014 - $90,621) were charged by a law firm in which a director of the Company is a partner, of which $78,180 (December 31, 2014 - $77,563) were expensed as general and administrative expenses and $14,997 (December 31, 2014 - $13,058) were charged to share capital as share issue costs.

d) The Company has trade and other receivables related to prior years of $90,786 (December 31, 2014 - $90,786) owing from 1528810 Alberta Ltd in which there are two common directors between the Company and the 1528810 Alberta Ltd. This amount has been offset in its entirety as an allowance for doubtful accounts.

e) As at December 31, 2015, the Company has accounts payable and accrued liabilities totaling $133,064 (December 31, 2014 – 66,129) 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.

	For the year ended December 31, 2015	For the year ended December 31, 2014
Compensation	305,775	343,375
Share based payments	127,886	148,127
TOTAL	**433,661**	**491,502**

A portion of the key management compensation of $215,775 (December 31, 2014 - $265,875) has been paid through consulting fees, which are included in note 14(a).

15 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, which is a level 2 input.

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, 2015, 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, 2015, the Company had cash of $138,987 (December 31, 2014 - $96,150), of which $133,545 (December 31, 2014 - $96,150) was deposited with two major financial institution and $5,442 (December 31, 2014 - $nil) is held in trust by the Company's legal counsel. Management has assessed the risk of loss to be minimal.

As at December 31, 2015, the Company's accounts receivable consisted of $28,652 (December 31, 2014 - $146,120) from petroleum and natural gas companies and $6,859 (December 31, 2014 - $7,016) 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:

Days outstanding	For the year ended December 31, 2015	For the year ended December 31, 2014
0-30 days	6,859	112,758
31-60 days	16,197	34,305
61-90 days	5,289	-
Greater than 90 days	110,925	6,073
TOTAL	**139,270**	**153,136**

At December 31, 2015, the Company has an allowance for $103,759 (December 31, 2014 - $108,408) of trade and other receivables that were deemed to be uncollectible, all of which are included in the greater than 90 days category.

(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, 2015, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $420,369 (December 31, 2014 - $288,368), which are all due over the next twelve months. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities. During the year ended December 31, 2015, certain creditors forgave $68,883 of liabilities (December 31, 2014 - $60,401).

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 years ended December 31, 2015 and 2014. A $10.00 per bbl change in commodity process would impact petroleum and natural gas sales by $59,955.

(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 year would not have a material impact on the Company's loss.

As at December 31, 2015 and December 31, 2014 the Company had no forward exchange rate contracts in place or any working capital items denominated in foreign currencies.

The Company had the following financial instruments denominated in USD at December 31, 2015:

Cash	22,028
Trade and other receivables	15,525
Accounts payable and accrued liabilities	39,076

(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.

The Company has no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2015 or December 31, 2014.

16 Segmented information

The Company's primary operations are limited to a single industry being the acquisition, exploration for, and development of petroleum and natural gas.

Geographical segmentation is as follows:

			As at December 31, 2015
	Canada	Unites States	Total
Petroleum and natural gas sales	-	353,593	353,593
Depletion and depreciation	1,195	263,879	265,074
Impairment expense	7,993	632,358	640,351
Net loss and comprehensive loss	934,690	963,097	1,897,787
Exploration and evaluation	-	1,770,835	1,770,835
Property, plant and equipment	3,545	1,907,912	1,911,457
Total liabilities	1,829,993	170,126	2,000,119

			As at December 31, 2014
	Canada	Unites States	Total
Petroleum and natural gas sales	3,678	506,002	509,680
Depletion and depreciation	1,419	106,901	108,320
Impairment expense	34,828		34,828
Net loss and comprehensive loss	791,626	147,671	939,297
Exploration and evaluation	-	924,800	924,800
Property, plant and equipment	3,678	1,865,406	1,869,084
Total liabilities	1,363,718	131,690	1,495,408

17 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, 2015, the working capital ratio was 0.45:1 (December 31, 2014 – 0.91:1). 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.