# MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the Three and Twelve Months Ended December 31, 2015**
**Date: April 6, 2016**

## 2015 OPERATING AND FINANCIAL HIGHLIGHTS

- Continued consolidation efforts at Michichi with the completion of a $16.3 million strategic acquisition and a $12.7 million strategic acquisition;
- Completed the sale of a production volume royalty on its Lloydminster property for proceeds of $20 Million;
- Completed an infrastructure-based facility agreement for proceeds of $15 million;
- Reduced net debt year-over-year by 20% to $50.3 million from $63.1 million in 2014;
- Company recorded a 2015 impairment charge of $6.2 million on its heavy oil and non-core assets, while maintaining a significant surplus at its core Michichi asset;
- Fourth quarter 2015 funds flow from operations were $2.5 million or $0.02 per share and contributed to full year 2015 funds flow from operations of $18.4 million or $0.15 per share;
- Fourth quarter production volumes increased 5% over the third quarter, averaging 4,924 boe per day. Annual average production for 2015 increased 4% over 2014 to 5,068 boe per day;
- Achieved G&A expenses of $2.30 per boe and $3.34 per boe for the three months and year ended December 31, 2015, respectively, representing a decrease of 31% and 10%, respectively, over the comparable 2014 periods;
- Realized $4.64 per boe of gains on derivatives through the Company's hedging program during the fourth quarter. Annual average netbacks were $14.47 per boe;
- Annual capital expenditures of $18.5 million reflecting $11.1 million related to the drilling, completion and tie in of 6 successful wells: 5 horizontal wells at Michichi and 1 vertical well at Lloydminster, $3.9 million in facility costs, $2.5 million in land and seismic, and $1.0 million in fixed assets;
- The 5 well 2015 drilling program at Michichi achieved results above expectations and expanded the Banff play northward and southward; and
- Raised $1,694,980 in proceeds through the issuance of 2,824,967 common shares issued on a Canadian Exploration Expense ("CEE") flow-through basis at a price of $0.60 per flow-through share representing a 58% premium to the trading price of Marquee's common shares before the announcement of the financing.

## CORPORATE UPDATE

Marquee has been focused for the past year on protecting its balance sheet while pursuing strategic opportunities for the long term benefit of its shareholders. In response to low commodity prices the Company reduced its capital budget for 2015. The Company's 5 well drilling program at Michichi achieved results above expectations and served to expand the Banff play northward and southward. Through increased efficiencies and reduced service costs the well costs on the core Michichi play fell from almost $3.0 million in 2013 to approximately $1.7 million by the end of 2015.

Marquee is transitioning from consolidation to the development phase of its long life light oil play at Michichi. The Company has established a drilling inventory in excess of 300 locations validated by an independent contingent resource assessment performed by Sproule. Through its operated land and infrastructure position, Marquee is able to control the pace and development of Michichi while continuing to lower both capital and operating costs.

In 2015 the Company focused on optimization and rationalization of operations and infrastructure. The corporate approach to continuous improvement identified opportunities through which Marquee could reduce overall field costs through comprehensive contracting processes and optimized operations. Savings have been achieved in labor, trucking, chemical, power and maintenance costs. The Company is projecting operating cost savings for 2016 of $6.7 million as compared to 2015. All aspects of the Company's operations will continue to be reviewed and optimized to further reduce operating costs and improve netbacks.

We also continue to actively manage Marquee's general and administrative ("G&A") budget. Savings in G&A expenses have been achieved in areas such as head office staff count, changes to employee benefits, reduction of corporate memberships, renegotiation of software licenses and technology contracts, a reduction of bank standby fees, and suspension of corporate sponsored functions. The Company has also re-negotiated its current office lease in order to take advantage of significantly lower priced office space in the current downtown office leasing market. The marked improvements in these costs can clearly be seen in Marquee's G&A expenses for the fourth quarter of 2015.

With the current uncertainty in oil and natural gas prices, Marquee believes the most prudent course of action is to limit capital spending to free corporate cashflow. The Company currently expects to spend between $3.5 and $5.0 million on capital costs in 2016. The Company evaluates its production on a regular basis and when warranted will shut-in non-economic wells to minimize losses. As such Marquee expects to average approximately 4,000 boed in 2016 dependent on the impact of prevailing commodity prices.

The Company continues to pursue opportunities to monetize non-core assets as a means to further reduce indebtedness. Through this focus on sustainability Marquee will be well positioned, when prices improve, to realize the value that has been delineated in Michichi. Our strengths at Michichi include large oil in place, extensive drilling inventory, strong economics at current oil prices, ownership and control of infrastructure, high working interest ownership and an improving cost structure.

The directors and management of Marquee will continue to monitor changes to commodity pricing and the current economic environment, as it affects both the Company's business and that of its suppliers. Any changes in capital spending will be dependent on projected cash flow and market conditions and are reviewed quarterly by the Board of Directors. The Company has a hedging program in place to provide a base level of revenue surety to protect its viability and any capital spending plans.

The management and board would like to thank our employees for their commitment and dedication to continuous improvement in trying times. The fruits of their labors are clear in the Company's operating and financial results. Marquee would also like to thank all of our shareholders for their continued support.

## FINANCIAL AND OPERATING HIGHLIGHTS

| | Three months ended December 31, 2015 | 2014 | Year ended December 31, 2015 | 2014 |
|---|---|---|---|---|
| **Financial** *(000's except per share and per boe amounts)* | | | | |
| Oil and natural gas sales (1) | **$ 12,153** | $ 20,697 | **$ 55,137** | $ 89,645 |
| Funds flow from operations (2) | **$ 2,471** | $ 10,830 | **$ 18,402** | $ 37,312 |
| Per share - basic and diluted | **$ 0.02** | $ 0.09 | **$ 0.15** | $ 0.34 |
| Per boe | **$ 5.45** | $ 22.60 | **$ 9.95** | $ 21.04 |
| Net income (loss) | **$ (26,701)** | $ 2,295 | **$ (53,419)** | $ (12,810) |
| Per share - basic and diluted | **$ (0.22)** | $ 0.02 | **$ (0.44)** | $ (0.12) |
| Capital expenditures | **$ 2,386** | $ 17,914 | **$ 18,539** | $ 58,275 |
| Asset acquisitions | **$ -** | $ 215 | **$ 27,049** | $ 2,435 |
| Proceeds on dispositions | **$ -** | $ - | **$ (38,653)** | $ (15,728) |
| | | | | |
| Net debt (2) | **$ 50,279** | $ 63,130 | **$ 50,279** | $ 63,130 |
| Total Assets | **$ 227,941** | $ 281,976 | **$ 227,941** | $ 281,976 |
| Weighted average basic and diluted shares outstanding | **120,617,040** | 120,338,002 | **120,410,342** | 110,492,215 |
| | | | | |
| **Operational** | | | | |
| Net wells drilled | **-** | 8.0 | **6.0** | 22.0 |
| Daily sales volumes | | | | |
| Oil (bbls per day) | **1,691** | 1,658 | **1,646** | 1,425 |
| Heavy Oil (bbls per day) | **461** | 580 | **598** | 537 |
| NGL's (bbls per day) | **176** | 150 | **185** | 195 |
| Natural Gas (mcf per day) | **15,578** | 16,923 | **15,831** | 16,203 |
| Total (boe per day) | **4,924** | 5,209 | **5,068** | 4,858 |
| % Oil and NGL's | **47%** | 46% | **48%** | 44% |
| Average realized prices | | | | |
| Light Oil ($/bbl) | **$ 42.76** | $ 71.79 | **$ 46.60** | $ 84.71 |
| Heavy Oil ($/bbl) | **$ 29.35** | $ 61.73 | **$ 38.26** | $ 72.54 |
| NGL's ($/bbl) | **$ 32.67** | $ 47.32 | **$ 34.91** | $ 56.85 |
| Natural Gas ($/mcf) | **$ 2.60** | $ 3.73 | **$ 2.84** | $ 4.62 |
| Netbacks | | | | |
| Revenue ($/boe) | **$ 26.83** | $ 43.19 | **$ 29.81** | $ 50.56 |
| Royalties ($/boe) | **$ (3.41)** | $ (3.64) | **$ (3.57)** | $ (5.71) |
| Operating and transportation costs ($/boe) | **$ (18.64)** | $ (16.86) | **$ (16.74)** | $ (17.26) |
| Operating netbacks prior to hedging (2) | **$ 4.78** | $ 22.69 | **$ 9.50** | $ 27.58 |
| Realized hedging gain (loss) ($/boe) | **$ 4.64** | $ 3.16 | **$ 4.97** | $ (0.91) |
| Operating netbacks ($/boe) (2) | **$ 9.42** | $ 25.85 | **$ 14.47** | $ 26.67 |

(1) Before royalties
(2) Defined under the Non-GAAP Measures section of this MD&A

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations for Marquee Energy Ltd. ("Marquee", "we", "our" or the "Company") as at and for the three and twelve month periods ending December 31, 2015. The MD&A should be read in conjunction with the Company's audited Financial Statements and related notes thereto for the three and twelve month periods ended December 31, 2015, and 2014. The Company's Financial Statements have been prepared in accordance with International Accounting Financial Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All figures provided herein are reported in thousands of Canadian dollars unless otherwise stated. The reader should be aware that historical results are not necessarily indicative of future performance.

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

**Non-GAAP Measures**

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

# DESCRIPTION OF BUSINESS

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

# RESULTS OF OPERATIONS

**Average Daily Oil and Natural Gas Production and Sales Volume**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Light oil (bbls/d) | **1,691** | 1,658 | 2% | **1,646** | 1,425 | 16% |
| Heavy oil (bbls/d) | **461** | 580 | -21% | **598** | 537 | 11% |
| NGLs (bbls/d) | **176** | 150 | 17% | **185** | 195 | -5% |
| Natural gas (mcf/d) | **15,578** | 16,923 | -8% | **15,831** | 16,203 | -2% |
| Total boe/d (6:1) | **4,924** | 5,209 | -5% | **5,068** | 4,858 | 4% |
| Production split (%) | | | | | | |
| Crude oil and NGL | **47%** | 46% | 3% | **48%** | 44% | 8% |
| Natural gas | **53%** | 54% | -3% | **52%** | 56% | -6% |
| Total | **100%** | 100% | 0% | **100%** | 100% | 0% |

Marquee's fourth quarter production decreased 5% to 4,924 boe/d comprised of crude oil and NGL production averaging 2,328 boe/d and natural gas production averaging 15,578 mcf/d. Net production declines are primarily a result of non-core asset dispositions in the Weyburn and Rimbey areas representing approximately 220 boe/d, shut-in Non-core heavy oil and shallow gas production of approximately 300 boe/d in consequence to the sharp decline in commodity prices, offset by a Michichi acquisition and the Company's successful 2015 drilling program. Three Michichi wells were tied-in and placed on production in the fourth quarter.

For the year ended December 31, 2015, Marquee achieved a production increase of 4% from averaging 4,858 boe/d in 2014 comprised of 2,157 boe/d of crude oil and NGL production and 16,203 mcf/d, to 5,068 boe/d in 2015 comprised of 2,429 boe/d of crude oil and NGL production and 15,831 mcf/d of natural gas production. The increase in crude oil and NGL production is primarily attributable to the Company's successful capital program drilling 6 (net 6) wells including 5 Michichi horizontal oil wells, and 1 vertical oil well at Lloydminster, and the acquisition of producing properties in the Michichi area, slightly offset by Non-core asset dispositions, shut-in production and natural decline.

**Average Benchmark and Realized Sales Prices (excluding commodity price contracts)**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Benchmark prices | | | | | | |
| WTI ($US/bbl) | **$ 42.18** | $ 73.15 | -42% | **$ 48.80** | $ 93.00 | -48% |
| $C/$US foreign exchange rate | **$ 0.75** | $ 0.88 | -14% | **$ 0.79** | $ 0.91 | -14% |
| WTI ($C/bbl) | **$ 56.22** | $ 83.39 | -33% | **$ 62.14** | $ 102.30 | -39% |
| WCS Hardisty ($C/bbl) | **$ 36.86** | $ 68.63 | -46% | **$ 44.82** | $ 81.61 | -45% |
| AECO natural gas ($/mcf) | **$ 2.34** | $ 3.41 | -31% | **$ 2.55** | $ 4.27 | -40% |
| Average sales prices | | | | | | |
| Light oil ($/bbl) | **$ 42.76** | $ 71.79 | -40% | **$ 46.60** | $ 84.71 | -45% |
| Heavy oil ($/bbl) | **$ 29.35** | $ 61.73 | -52% | **$ 38.26** | $ 72.54 | -47% |
| NGL ($/bbl) | **$ 32.67** | $ 47.32 | -31% | **$ 34.91** | $ 56.85 | -39% |
| Natural gas ($/mcf) | **$ 2.60** | $ 3.73 | -30% | **$ 2.84** | $ 4.62 | -38% |
| Combined ($/boe) | **$ 26.83** | $ 43.19 | -38% | **$ 29.81** | $ 50.56 | -41% |

The West Texas Intermediate ("WTI") at Cushing, Oklahoma is the benchmark reference price for North American crude oil prices. Canadian oil prices, including Marquee's crude oil, are based on price postings, which is WTI-adjusted for transportation, quality and the U.S./Canadian Dollar currency conversion rates. During the year ended December 31, 2015, market crude oil prices decreased 45% with the WTI crude oil price benchmark averaging US$48.80 per Bbl as compared to US$93.00 per Bbl in 2014. The decline in crude oil prices has been driven primarily by an oversupplied global oil market. It is expected that North American crude oil inventories nearing storage capacity and continued global production growth may continue to suppress domestic oil prices for the near- and medium-term.

Marquee's light oil discount to the Canadian-dollar equivalent WTI price averaged $15.54 per Bbl for the year ended December 31, 2015 compared to $17.59 per Bbl in 2014. Marquee's heavy oil discount to the WCS price averaged $6.56 per Bbl compared to 9.07 per Bbl in 2014.

Alberta AECO natural gas benchmark pricing decreased 31% and 40% for the three and twelve months ended December 31, 2015 as compared to the same periods in 2014. Consequently, the average realized price for the year ended December 31, 2015 decreased to $2.84 per mcf as compared to $4.62 per mcf in 2014, and a quarter over quarter decrease to $2.60 per mcf compared to $3.73. Marquee's natural gas sales are priced with reference to the Alberta AECO-5A market reference price. Currently the North American natural gas prices continue to have downward pressure applied as a result of oversupply resulting from increased production, and weak demand figures caused by favorable weather conditions.

Crude oil and natural gas benchmark prices are denominated in U.S. dollars, a decrease in the value in the Canadian dollar compared to the U.S. dollar results in increased revenue due to foreign exchange.

**Oil and Natural Gas Revenue (excluding commodity price contracts)**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Light oil | **6,653** | 10,950 | -39% | **27,999** | 44,058 | -36% |
| Heavy oil | **1,245** | 3,294 | -62% | **8,351** | 14,218 | -41% |
| NGLs | **529** | 653 | -19% | **2,357** | 4,046 | -42% |
| Natural gas | **3,726** | 5,800 | -36% | **16,430** | 27,323 | -40% |
| Total revenue | **12,153** | 20,697 | -41% | **55,137** | 89,645 | -38% |

Total revenue for the three months ended December 31, 2015 was $12.2 million compared to $20.7 million in the comparable 2014 period, a decrease of 41% due to the sharp decline in benchmark and realized commodity prices and a 5% decrease in production. Total revenue for the year ended December 31, 2015 was $55.1 million compared to $89.6 million in 2014, a decrease of 38% primary attributable to the decline in benchmark and realized commodity prices offset by a 4% increase in production.

**Commodity Price Contracts and Risk Management**

The Company's financial results will be dependent on the prices received for crude oil and natural gas production. North American crude oil prices have sharply decreased due primarily to global oversupply and storage facilities approaching capacity in Cushing, Oklahoma. Natural gas benchmark prices have also decreased and are determined by supply and demand factors, including weather, and general economic conditions in natural gas consuming and producing regions. Management has been proactive in entering into derivatives for the purpose of hedging and has partially mitigated commodity price risk by entering into crude oil and natural gas hedging contracts extending to December 31, 2016. Marquee's current commodity contract position as at the date of this MD&A is as follows:

| Product | Type | Notional Volumes | Price ($Cdn) | Index | Term |
|---|---|---|---|---|---|
| Crude oil | Swap | 250 bbl/day | $76.87/bbl | WTI-NYMEX | Jan.01,2016 to Mar.31,2016 |
| Crude oil | Swap | 900 bbl/day | $58.30/bbl | WTI-NYMEX | Jan.01, 2016 to Mar.31,2016 |
| Crude oil | Swap | 850 bbl/day | $60.88/bbl | WTI-NYMEX | Apr.01, 2016 to Jun.30,2016 |
| Crude oil | Swap | 250 bbl/day | $49.60/bbl | WTI-NYMEX | Apr.01, 2016 to Jun.30,2016 |
| Crude oil | Swap | 300 bbl/day | $52.40/bbl | WTI-NYMEX | Jul.01,2016 to Sep.30,2016 |
| Crude oil | Swap | 200 bbl/day | $55.83/bbl | WTI-NYMEX | Jul.01,2016 to Sep.30,2016 |
| Crude oil | Swap | 200 bbl/day | $54.15/bbl | WTI-NYMEX | Oct.01,2016 to Dec.31,2016 |
| Crude oil | Swap | 100 bbl/day | $57.21/bbl | WTI-NYMEX | Oct.01,2016 to Dec.31,2016 |
| Gas | Swap | 3000 GJ/day | $2.92/GJ | AECO-fixed | Jan.01,2016 to Mar.31,2016 |
| Gas | Swap | 3000 GJ/day | $2.96/GJ | AECO-fixed | Jan.01,2016 to Mar.31,2016 |

A summary of realized and unrealized commodity contract gains and losses for the three months and year ended December 31, 2015 and 2014 are as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Realized gain/(loss) on commodity contracts | **2,100** | 1,515 | 39% | **9,198** | (1,605) | -673% |
| Unrealized gain/(loss) on commodity contracts | **(211)** | 5,780 | -104% | **(4,420)** | 7,005 | -163% |
| | **1,889** | 7,295 | -74% | **4,778** | 5,400 | -12% |

As a result of the recent significant decrease in crude oil and natural gas prices, Marquee realized commodity contract gains for both the three months and year ended December 31, 2015. For the three months ended December 31, 2015, an unrealized loss of $0.2 million was recognized, being the decrease in fair value to a net derivative asset of $1.8 million at September 30, 2015 as compared to a net derivative asset of $1.6 million at December 31, 2015. For the year ended December 31, 2015, an unrealized loss of $4.4 million was recognized, being the decrease in fair value to a net derivative asset of $6.1 million at December 31, 2014 as compared to a net derivative asset of $1.6 million at December 31, 2015. The fair value of the net commodity contract asset is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. These commodity price contracts will settle from January 1, 2016 to December 31, 2016 corresponding to when the Company will recognize sales from production.

**Royalties**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Royalties | **1,544** | 1,742 | -11% | **6,603** | 10,133 | -35% |
| As a percentage of revenue | **13%** | 8% | 51% | **12%** | 11% | 6% |
| $/boe | **3.41** | 3.64 | -6% | **3.57** | 5.71 | -38% |

Royalty payments are made to the owners of the mineral rights on leases, which include provincial governments and freehold landowners, as well as to other third parties by way of contractual overriding royalties. Overriding royalties are generally paid to third parties where Marquee has entered into agreements to earn an interest in their mineral rights by investing capital in their property.

Royalties for the three months ended December 31, 2015 decreased to $1.5 million or 13% of sales compared to $1.7 million or 8% of sales for the same period in 2014. Royalties for the year ended December 31, 2015 decreased to $6.6 million or 12% of sales compared to $10.1 million or 11% of sales in 2014. The decrease in royalties in total and on a per boe basis, are the result of lower benchmark and realized commodity prices, slightly offset by the Production Volume Royalty (“PVR”) arrangement on Lloydminster production comprised of 137.5bbl/d. Royalties as a percentage of sales have held consistent at 12% throughout 2015, a slight increase from prior year due to the PVR and expiration of royalty holidays on applicable wells.

**Production and Transportation Expense**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Production and operating costs | **8,146** | 7,186 | 13% | **28,689** | 26,960 | 6% |
| Transportation costs | **296** | 896 | -67% | **2,278** | 3,652 | -38% |
| | **8,442** | 8,082 | 4% | **30,967** | 30,612 | 1% |
| $/boe | **18.64** | 16.86 | 11% | **16.74** | 17.26 | -3% |

Production and transportation costs for the three months ended December 31, 2015 were $8.4 million or $18.64 per boe compared to $8.1 million or $16.86 per boe for the same period in 2014. Production and transportation costs for the year ended December 31, 2015 were $31.0 million or $16.74 per boe compared to $30.6 million or $17.26 per boe in 2014. The increase in production and operating costs both in aggregate and on a per boe basis is as a result of an increase in the number of wells following the Company’s successful 2015 drilling program, and continued expansion via acquisition in Marquee’s core Michichi area. There was also one-time fixed costs related to property taxes and rentals and a turnaround on one Michichi facility as compared to the previous year. The decrease in transportation expense for both the three months and year ended December 31, 2015, both in aggregate and on a per boe basis is due to efficiencies realized due to renegotiated transportation contracts and optimized trucking routes.

## General and Administrative Expense

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| G&A expense, gross | **1,432** | 2,125 | -33% | **7,856** | 8,443 | -7% |
| Recovered and capitalized | **(388)** | (515) | -25% | **(1,670)** | (1,887) | -11% |
| G&A expense, net | **1,044** | 1,610 | -35% | **6,186** | 6,556 | -6% |
| $/boe, net | **2.30** | 3.36 | -31% | **3.34** | 3.70 | -10% |

During the fourth quarter of 2015, general and administrative expense "G&A", net of capitalized and overhead recovery costs was $1.0 million or $2.30 per boe as compared to the quarter ended December 31, 2014 where G&A expenses were $1.6 million or $3.36 per boe. Gross G&A expenses prior to the effects of capitalized and overhead recoveries amounts were $1.4 million as compared to the quarter ended December 31, 2014 of $2.1 million.

For the year ended December 31, 2015, G&A, net of capitalized and overhead recovery amounts was $6.2 million, or $3.34 per boe, as compared to the 2014 amounts of $6.6 million, or $3.70 per boe. Gross G&A expenses prior to the effects of capitalized and overhead recoveries amounts were $7.9 million for the year ended December 31, 2015 as compared to $8.4 million in 2014.

G&A decreased for the three months and year ended December 31, 2015 compared to the same period in the prior year, a result of an active cost containment strategy implemented by management including reduction of non-core services, decreased number of employees, reduced employee compensation, lower professional service fees relating to the Company's year-end audit and reserve report, and decreased financial consultant costs.

## Share-based Compensation

The Company records share-based compensation expense ("SBC") related to employee stock options with the offsetting amount recorded in contributed surplus. The Company capitalizes a portion of SBC which is directly attributable to personnel involved in exploration and development capital investment activities. Marquee uses a Black-Scholes option pricing model to calculate the fair value of stock option grants where the corresponding expense is recognized over the option vesting period.

As at December 31, 2015, the Company had 7,890,000 stock options and 1,146,226 warrants outstanding. The options and warrants were issued at an average exercise price of $0.67 per option and $1.20 per warrant. For the three months and year ended December 31, 2015 and 2014, the following is recorded related to SBC:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| SBC expense, gross | **1,103** | 1,486 | -26% | **2,207** | 1,367 | 61% |
| SBC, capitalized | **(268)** | (1,218) | -78% | **(533)** | (273) | 95% |
| SBC expense, net | **835** | 268 | 212% | **1,674** | 1,094 | 53% |

## Finance Expenses

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Interest on bank debt | **391** | 502 | -22% | **1,790** | 3,202 | -44% |
| Accretion of decommissioning liabilities | **375** | 394 | -5% | **1,311** | 1,421 | -8% |
| Bad debt expense | **276** | - | 100% | **276** | - | 100% |
| | **1,042** | 896 | 16% | **3,377** | 4,623 | -27% |
| $/boe | **2.30** | 1.87 | 23% | **1.83** | 2.61 | -30% |

During the fourth quarter in 2015, finance expenses increased to $1.0 million or $2.30 per boe from $0.9 million or $1.87 in the fourth quarter of 2014. Finance expenses decreased to $3.4 million or $1.83 per boe for the year ended December 31, 2015 compared to $4.6 million or $2.61 per boe in 2014. The decrease in interest expense was attributable to lower average outstanding debt balances, lower interest rates, and decreased standby fees due to voluntary reduction of the Company's credit facility. The amount recorded as bad debt is deemed uncollectable by management and relates to joint venture non-payment where vendors have been granted protection under the Bankruptcy and Insolvency Act, specifically Company's Creditors Arrangement Act "CCAA".

## Depletion, Depreciation and Impairment

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Depletion and depreciation | **9,064** | 8,852 | 2% | **35,423** | 32,948 | 8% |
| Impairment | **1,195** | 5,605 | -79% | **6,180** | 5,605 | 10% |
| | **10,259** | 14,457 | -29% | **41,603** | 38,553 | 8% |
| $/boe | **22.65** | 30.17 | -25% | **22.49** | 21.74 | 3% |

The Company's depletion and depreciation expense is computed on a unit-of-production basis using proved plus probable reserves. The unit-of-production rate takes into account capital expenditures incurred to-date, together with future development capital expenditures required to develop those proved plus probable reserves. As a result, the depletion and depreciation provision, on an oil equivalent per-unit basis, may fluctuate period-to-period primarily due to changes in the underlying proved plus probable reserves base and in the amount of costs subject to depletion and depreciation. These costs are segregated and depleted on an area-by-area basis relative to the respective underlying proved plus probable reserves base.

For the three months ended December 31, 2015 depletion expense increased by 2% to $9.1 million. For the year ended December 31, 2015 depletion expense increased by 8% to $35.4 million. The change in depletion expense is due to production fluctuation, increased future development costs associated with the Company's proved plus probable reserves, a reduction in reserves and depletable property in the Lloydminster area related to the PVR arrangement and non-core asset dispositions, offset by reserves booked subsequent to December 31, 2014 and reserves acquired through Company's Michichi acquisitions.

At December 31, 2015, it was determined that the significant decline of commodity prices was an indication of impairment, and impairment tests were performed on the Company's CGUs. The recoverable amounts of the Company's CGUs were estimated based on the higher of the *value in use* and the *fair value less costs to sell.* The recoverable amount for the year-ended December 31, 2015 was determined using *value in use*, based on the net present value of the before tax cash flows from oil and natural gas proved plus probable reserves estimated by the Company's external reserve evaluators discounted at a pre-tax rate of 8% to 12% per annum (2014 – 8% to 12%).

A decrease in the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") future oil price estimates combined with a decrease in the future AECO natural gas price as compared to those used in the December 31, 2014 estimates has resulted in impairment charges related to the Heavy oil and Non-core CGUs for $5.4 million and $0.8 million respectively, due to the carrying value exceeding its recoverable amount. After impairment the recoverable amount of the Heavy oil CGU was $6.4 million, and the Non-core CGU was $nil.

**Taxes**

Deferred income taxes arise from differences between the accounting and tax basis of assets and liabilities. The estimate of deferred income taxes is based on the current tax status of the Company, enacted legislation and management's best estimates of future events. The effective tax rate differs from the statutory tax rate as it primarily takes into consideration permanent differences, adjustments for changes in tax rates and other tax legislation, and the actual amounts subsequently reported on the Company's corporate tax return.

For the year ended December 31, 2015, the Company recorded a deferred tax expense of $6.0 million as compared to a deferred tax recovery of $6.5 million in the comparable 2014 period. The 2015 deferred tax expense is primary attributed to depressed world market oil and natural gas prices, current period impairment charges, and management's judgment related to recognition of deferred tax assets.

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

During the three months and year ended December 31, 2015 the Company recorded $17.4 million (2014 - $0.2 million) and $19.1 million (2014 - $2.5 million) in exploration and evaluation expenses. The period charges are a result of timing of the lease expiries and the Company's plans to develop those areas.

**Funds Flow from Operations and Net Income (Loss)**

Funds flow from operations for the three months and year ended December 31, 2015 was $3.3 million and $19.2 million or $0.03 and $0.16 per share compared to $10.8 million and $38.6 million or $0.09 and $0.35 per share in the comparative 2014 periods. The decrease for the three months and year ended December 31, 2015 as compared to the same period in 2014 is due to lower netbacks resulting from the significant reduction in realized commodity prices.

The net loss for the three months ended December 31, 2015, was $25.9 million ($0.21 per share, basic and diluted) compared to net income of $2.3 million ($0.02 per share, basic and diluted) for the same period in 2014. The net loss for the year ended December 31, 2015, was $52.6 million ($0.44 per share, basic and diluted) compared to a net loss of $12.8 million ($0.12 per share, basic and diluted) for the same period in 2014.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s, except per share and per boe amounts) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| **Funds flow from operations** | **2,471** | 10,830 | -77% | **18,402** | 38,574 | -52% |
| Per share, basic and diluted | **0.02** | 0.09 | -77% | **0.15** | 0.35 | -56% |
| Per boe | **5.45** | 22.60 | -76% | **9.95** | 21.75 | -54% |
| **Net income (loss)** | **(26,701)** | 2,295 | -1263% | **(53,419)** | (12,810) | 317% |
| Per share, basic and diluted | **(0.22)** | 0.02 | -1261% | **(0.44)** | (0.12) | 283% |

The following table summarizes netbacks on a per boe basis for the three months and year ended December 31, 2015 and 2014.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| Netbacks ($/boe) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Sales | **26.83** | 43.19 | -38% | **29.81** | 50.56 | -41% |
| Royalties | **(3.41)** | (3.64) | -6% | **(3.57)** | (5.71) | -38% |
| Production costs | **(17.98)** | (14.99) | 20% | **(15.51)** | (15.20) | 2% |
| Transportation costs | **(0.65)** | (1.87) | -65% | **(1.23)** | (2.06) | -40% |
| Operating netback prior to hedging | **4.78** | 22.69 | -79% | **9.50** | 27.58 | -66% |
| Realized hedging gain (loss) | **4.64** | 3.16 | 47% | **4.97** | (0.91) | -649% |
| Operating netback | **9.42** | 25.85 | -64% | **14.47** | 26.67 | -46% |
| General and administrative expenses | **(2.30)** | (3.36) | -31% | **(3.34)** | (3.70) | -10% |
| Finance expense | **(2.30)** | (1.87) | 23% | **(1.83)** | (2.61) | -30% |
| Corporate netback | **4.81** | 20.62 | -77% | **9.30** | 20.37 | -54% |

**Gain on Acquisition and Disposition of Oil and Natural Gas Interests**

On March 24, 2015, the Company closed an arrangement for the sale of a production volume royalty (“PVR”) on its Lloydminster property for total proceeds of $20 million with a disposal value of property, plant and equipment of $19.0 million resulting in a gain of $1.0 million (2014 - $nil).

On March 25, 2015, the Company completed an acquisition in the Michichi area for $16.3 million comprised of $14.4 million in cash consideration in addition to the conveyance and exchange of certain non-core gas properties valued at $1.9 million with a carrying value of $1.5 million resulting in a gain of $0.4 million. The transaction resulted in the addition of 330 boe/d (79% oil and NGLs), and the disposition of 137 boe/d (77% natural gas).

During the year ended December 31, 2015, the Company completed the sale of certain non-core properties for net proceeds of $3.7 million (2014 – $0.7 million) with an associated asset retirement cost of $4.2 million. A $0.3 million gain related to non-core dispositions (2014 – $0.6 million) was recognized in earnings.

On August 19, 2015, the Company completed a transaction to acquire oil and natural gas properties and related infrastructure in the Michichi area for $12.7 million in cash resulting in a gain on acquisition of $2.2 million. The Acquisition includes approximately 550 boe/d, 21 net sections of land containing Banff rights that are contiguous with Marquee's existing light oil play, and extensive infrastructure. The gain on acquisition is representative of distressed market conditions relative to fair value, and the disposition of associated infrastructure for proceeds of $15.0 million in connection with the facility arrangement.

**Capital Expenditures**

| ($000s) | Three months ended December 31, 2015 | 2014 | Year ended December 31, 2015 | 2014 |
|---|---|---|---|---|
| Land and lease (1) | **176** | 225 | **2,184** | 2,777 |
| Seismic (1) | **-** | 3,543 | **361** | 5,040 |
| Drilling and completions (1) | **833** | 10,751 | **11,161** | 37,766 |
| Equipment and facilities | **1,012** | 3,175 | **3,873** | 11,819 |
| Acquisitions (2)(3) | **-** | 215 | **27,049** | 2,434 |
| Dispositions (2) | **(46)** | - | **(38,653)** | (15,727) |
| Office and other (2) | **410** | 220 | **960** | 873 |
| | **2,385** | 18,129 | **6,935** | 44,982 |

*(1) Includes expenditures on exploration and evaluation assets as well as PP&E*

*(2) Excludes non-cash additions and dispositions*

The Company drilled 6 (net 6) wells in 2015 including 5 horizontal Michichi oil wells and 1 vertical oil well in Lloydminster.

On March 24, 2015, the Company closed an arrangement with a partner for the sale of a production volume royalty ("PVR") on its Lloydminster property. Total consideration for the arrangement was $20 million with a disposal of property, plant and equipment having a carrying value of $19 million.

On March 25, 2015, the Company completed an acquisition for $16.3 million comprised of $14.4 million in cash and the conveyance and exchange of certain non-core gas properties. The strategic acquisition provides additional production of approximately 330 boe/d, and 34 net sections of land that is complementary to the Company's existing core asset base and infrastructure at Michichi.

On August 19, 2015, the Company completed a transaction to acquire oil and natural gas properties and related infrastructure in the Michichi area for $12.7 million in cash. The Acquisition includes approximately 550 boe/d, 21 net sections of land containing Banff rights that are contiguous with Marquee's existing light oil play, and extensive infrastructure.

On August 19, 2015, Marquee completed a facility arrangement with a third party under which the Company received $15.0 million in cash, before transaction costs, in exchange for the sale of a gas plant with a net book value of $16.0 million with an associated decommissioning liability of $1.0 million. The Facility Agreement enables the Company to consolidate available assets in its core Michichi area without debt or dilution.

For the year ended December 31, 2015, the Company disposed of certain petroleum and natural gas properties in its non-core areas for proceeds of $3.7 million. Proceeds from the sale provided the Company with a non-dilutive source of funding to increase the Company's financial flexibility and contribute to the 2015 capital program.

## CAPITAL RESOURCES AND LIQUIDITY

**Credit Facility**

At December 31, 2015, the Company has a syndicated credit facility ("facility") with two Canadian Chartered Banks. The facility has a borrowing base of $70.0 million (2014 - $80 million) with a facility restriction to $60.0 million, comprised of a $60 million (2014- $70 million) revolving demand facility ("revolving loan") and a $10 million (2014 - $10 million) operating demand facility ("operating loan"). The maximum availability of the facility may be increased up to the borrowing base if agreed to by all lenders in their sole discretion subject to review and consent. The Company voluntarily reduced the borrowing base to $70 million and cancelled a $15 million acquisition facility previously in place in order to reduce interest and standby charges. The revolving and operating loans can be used for general corporate purposes and capital expenditures, and bear interest at either the Banks' prime rate plus an applicable margin (of 50 bps to 250 bps) or, Bankers Acceptance ("BA") rates plus an additional margin (of 175 bps to 375 bps) both determined by reference to the Company's net debt to funds from operations ratio calculated as working capital, excluding the fair value of any commodity contracts, over annualized trailing quarterly cash flow from operating activities before working capital adjustments. At December 31, 2015, the interest rate is prime plus 250 bps and the BA rate is quoted plus 375 bps. As the available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. The next scheduled review for the credit facilities is May 2016.

**Common Share and Warrant Information**

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2015, there were 123,165,652 common shares outstanding, an increase of 2,824,967 shares compared to December 31, 2014, due to a December 2015 issuance of flow-through shares.

The following denotes Marquee common shares outstanding, stock options and warrants:

| | April 6, 2016 | **December 31, 2015** | December 31, 2014 |
|---|---|---|---|
| Common shares | 123,165,652 | **123,165,652** | 120,340,685 |
| Stock options | 7,890,000 | **7,890,000** | 10,123,602 |
| Warrants | 1,146,226 | **1,146,226** | 1,679,835 |

**Liquidity**

The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds flow generated from operations, the ability to draw on existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a short term liability due to its demand terms. The Company generated positive funds flow from operations for the three months and year ended December 31, 2015.

The Company's credit facility is a demand loan and as such the bank could demand repayment at any time. The credit facilities are subject to review on a periodic basis at the discretion of the Bank. As the available lending limits of the facilities are based on the banks' interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. This review was last completed in November 2015 and the next scheduled review is May 31, 2016. The third quarter reduction was voluntary and not in connection with the banks' semi-annual review. Management is not aware of any indications that the bank would demand repayment within the next 12 months. The Company further expects that it will have sufficient cash on hand to meet current obligations by actively monitoring its credit facilities through use of the revolving and operating loans, coordinating payment and revenue cycles each month, and an active hedging program to mitigate commodity price risk and secure operating cash flows.

Subsequent to December 31, 2015, management has delayed certain capital projects until the pricing environment improves and has and continues to work on strategies to reduce general and administrative and operating costs.

**Capital management**

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

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

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

The Company's strategy is to monitor the ratios and the ratios can, and will, fluctuate based on the timing of property transactions, commodity prices and on the mix of exploratory and development drilling. There have been no changes to the Company's capital management policies for the year ended December 31, 2015.

The following table summarizes the Company's net debt to funds flow from operations calculation, as at:

| ($000s, except ratios) | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Current assets (excluding commodity contracts) | **7,488** | 11,233 |
| Accounts payable and accrued liabilities | **(5,352)** | (15,598) |
| Bank debt | **(52,415)** | (58,765) |
| Net debt | **(50,279)** | (63,130) |

| ($000s, except ratios) | **Year ended December 31, 2015** | Year ended December 31, 2014 |
|---|---|---|
| Annualized fourth quarter funds flow from operations | **9,884** | 43,320 |
| Net debt to annualized fourth quarter funds flow from operations | **5.1** | 1.5 |
| Annual funds flow from operations | **18,402** | 37,312 |
| Net debt to annual funds flow from operations | **2.7** | 1.7 |

As at December 31, 2015, the Company's ratio of net debt to annualized fourth quarter funds flow from operations was 5.1 to 1 (December 31, 2014 – 1.5 to 1). As at December 31, 2015, the Company's ratio of net debt to annual funds flow from operations was 2.7 to 1 (December 31, 2014 – 1.7 to 1). The increase in the ratio at December 31, 2015 was a result of a decrease in funds flow from operating activities caused by the decline in benchmark and realized commodity prices in the period, offset by a lower outstanding bank debt which was repaid with proceeds from the PVR arrangement and the sale of non-core petroleum and natural gas properties, less capital expenditures and acquisitions.

The following table summarizes the Company's working capital calculation as defined by its lending facility covenants, as at:

| ($000s) | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Current assets, excluding commodity price contracts | **7,488** | 11,233 |
| Undrawn available credit | **6,785** | 20,435 |
| Subtotal | **14,273** | 31,668 |
| Current liabilities, excluding bank debt | **5,352** | 15,598 |
| Working capital ratio | **2.7 to 1.0** | **2.0 to 1.0** |

The Company is required to maintain, under its credit facility, a working capital ratio of greater than 1 to 1 defined as the ratio of current assets (including undrawn available credit on the revolving and operating portion of the facility and excluding the fair value of the commodity contracts) divided by current liabilities (less the current portion of bank debt and the fair value of the commodity contracts). At December 31, 2015, the working capital ratio was 2.7 to 1.0 (December 31, 2014 – 2.0 to 1.0) and the Company was in compliance with the covenant. The working capital ratio increased for the period ended December 31, 2015, as a result of the decrease in net debt.

**Contractual Obligations**

In relation to the PVR arrangement, Marquee has committed to spend $2.75 million in capital costs per calendar year from 2016 until 2022, associated with the drilling, completion, re-completion, workover, equipping and tie-in costs in order to maintain production from the royalty lands.

Under the facility arrangement the Company has been contracted by the purchaser to operate the facility over a 7.5 year term and will continue to process gas from certain producing properties. Marquee will pay the purchaser an annual facility tariff fee of $2.3 million for the life of the agreement, but retain all third party processing revenues generated.

On December 22, 2015, the Company issued 2,824,967 flow-through shares at $0.60 for total proceeds of $1.7 million and incurred associated share issue costs of $0.1 million. The Company committed to spend 100% of the flow-through funds on qualifying expenditures by December 31, 2016.

The Company has entered into a new office lease effective January 1, 2016 with commitments that expire in 2020. Future minimum lease payments, including operating costs, are as follows:

| | Amount ($) |
|---|---|
| Less than one year | 258 |
| Between one and five years | 1,341 |
| | 1,599 |

## RISKS AND UNCERTAINTIES

**Business Risks**

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

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

The Company mitigates these business risks by:

- Maintaining cost-effective operations;

- Maintaining a balance between oil and gas properties;
- Operating our own properties to control the amount and timing of capital expenditures;
- Using new technology to maximize production and recoveries and reduce operating costs;
- Restricting operations to western, central and southern Alberta where locations are accessible, operating and capital costs are reasonable and on-stream times are shorter; and
- Drilling wells in areas with multiple high deliverability zone potential.

**Environmental, Health and Safety Risk**

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

**Regulation, Tax and Royalty Risk**

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

**Industry and Economic Factors**

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

The producers of oil are entitled to negotiate sales and purchase agreements directly with oil purchasers. Most domestic Canadian agreements are linked to standard market oil reference prices being Edmonton Mixed Sweet Blend ("MSW") and Western Canadian Select ("WCS"). Oil prices are set by daily, weekly and monthly physical and financial transactions for crude oil. Those prices are primarily based on worldwide and domestic fundamentals of supply and demand. Specific prices depend in part on oil quality, prices of competing fuels, distance to the markets, value of refined products, the supply/demand balance and other contractual terms. The price of natural gas is also determined by negotiation between buyers and sellers.

Domestic prices for crude oil and natural gas fluctuate in response to changes in the supply of and demand for crude oil and natural gas, market uncertainty and a variety of other factors beyond the Company's control. These factors include, but are not limited to, the actions of the Organization of the Oil Exporting Countries (OPEC), world economic conditions, government regulation, political developments, the foreign supply of oil, the price of foreign imports, the availability of alternate fuel sources and weather conditions.

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

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

## SUMMARY OF QUARTERLY AND ANNUAL RESULTS

The following table summarizes the Company's key quarterly financial results for the past eight quarters and annual results for the past three years.

| | Quarterly Comparison | | | | | | | | Annual Comparison | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | 2015 | | | | 2014 | | | |
| | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 | **2015** | 2014 | 2013 |
| **Financial** | | | | | | | | | | | |
| Total revenue | **12,153** | **12,792** | **16,082** | **14,110** | 20,696 | 23,070 | 25,132 | 20,745 | **55,137** | 89,643 | 45,295 |
| Funds flow from operations | **2,471** | **2,613** | **6,316** | **7,002** | 10,830 | 10,334 | 9,274 | 7,391 | **18,402** | 37,312 | 10,795 |
| Basic & diluted ($/share) | **0.02** | **0.02** | **0.05** | **0.06** | 0.09 | 0.09 | 0.08 | 0.08 | **0.15** | 0.34 | 0.19 |
| Net income/(loss) | **(26,701)** | **(17,837)** | **(4,750)** | **(4,131)** | 2,295 | (13,254) | 900 | (2,750) | **(53,419)** | (12,809) | (3,013) |
| Basic and diluted ($/share) | **(0.22)** | **(0.15)** | **(0.04)** | **(0.03)** | 0.02 | (0.11) | 0.01 | (0.03) | **(0.44)** | (0.12) | (0.05) |
| Capital expenditures (1) | **2,386** | **8,577** | **949** | **6,627** | 17,915 | 23,190 | 4,173 | 12,997 | **18,539** | 58,275 | 33,255 |
| Total assets | **227,941** | **258,956** | **265,779** | **270,972** | 281,976 | 276,951 | 282,939 | 283,559 | **227,941** | 281,976 | 239,156 |
| Total equity | **79,821** | **104,421** | **121,984** | **126,324** | 130,035 | 127,384 | 140,088 | 119,826 | **79,821** | 130,035 | 111,507 |
| Net debt | **50,279** | **51,904** | **48,829** | **54,064** | 63,130 | 54,739 | 63,130 | 79,546 | **50,279** | 63,130 | 73,123 |
| Weighted average common shares outstanding | **120,617** | **120,341** | **120,341** | **120,341** | 120,341 | 120,338 | 112,534 | 88,296 | **120,410** | 100,492 | 55,542 |
| **Operations** | | | | | | | | | | | |
| Average daily production | | | | | | | | | | | |
| Crude oil (bbl/d) | **1,691** | **1,437** | **1,711** | **1,749** | 1,658 | 1,379 | 1,434 | 1,223 | **1,646** | 1,425 | 773 |
| Heavy oil (bbl/d) | **461** | **542** | **622** | **771** | 580 | 531 | 525 | 511 | **598** | 537 | 516 |
| NGLs (bbl/d) | **176** | **152** | **185** | **227** | 150 | 253 | 195 | 180 | **185** | 195 | 80 |
| Natural gas (mcf/d) | **15,578** | **15,430** | **15,599** | **16,733** | 16,923 | 17,881 | 17,285 | 12,657 | **15,831** | 16,203 | 4,960 |
| Total boe/d | **4,924** | **4,703** | **5,118** | **5,536** | 5,209 | 5,143 | 5,035 | 4,024 | **5,068** | 4,858 | 2,196 |

(1) Excludes acquisitions and dispositions

*Three months ended December 31, 2015 (Q4-2015) compared to September 30, 2015 (Q3-2015)*
Total revenue was lower in Q3 2015 compared to Q2 2015 despite higher production volumes due to decreased commodity benchmark and realized prices. The net loss in Q4 2015 compared to net loss in Q3 2015 was higher due to exploration and evaluation expenditures relating to expired undeveloped land, lower operating netbacks, increased depletion and impairment charges. Capital expenditures in the quarter decreased due to Marquee drilling zero wells compared to four horizontal Michichi wells in Q3-2015.

*Three months ended September 30, 2015 (Q3-2015) compared to June 30, 2015 (Q2-2015)*
Total revenue was lower in Q3 2015 compared to Q2 2015 due to lower production volumes and decreased commodity benchmark and realized prices. The net loss in Q3 2015 compared to net loss in Q2 2015 was higher due to lower operating netbacks, increased depletion, third quarter impairment charge and a deferred tax expense. Capital expenditures in the quarter increased due to Marquee drilling four horizontal Michichi wells compared to zero in Q2-2015.

*Three months ended June 30, 2015 (Q2-2015) compared to March 31, 2015 (Q1-2015)*
Total revenue was higher in Q2 2015 compared to Q1 2015 despite lower production volumes as a result of increased commodity benchmark and realized prices. Net loss in Q2 2015 compared to net loss in Q1 2015 was due to lower operating netbacks. Capital expenditures in the quarter decreased as the Company did not drill any wells in the second quarter compared to two wells in Q1 2015.

*Three months ended March 31, 2015 (Q1-2015) compared to December 31, 2014 (Q4-2014)*
Total revenue was lower in Q1 2015 compared to Q4 2014 despite higher production volumes as a result of decreased commodity benchmark and realized prices. Net loss in Q1 2015 compared to net income in Q4 2014 was due to lower operating netbacks. Capital expenditures in the quarter decreased as a result of drilling only two wells compared to nine in Q4 2014.

*Three months ended December 31, 2014 (Q4-2014) compared to September 30, 2014 (Q3-2014)*
Total revenue was lower in Q4 2014 compared to Q3 2014 despite higher production volumes as a result of decreased realized prices. Net income in Q4 2014 as opposed to net loss in Q3 2014 was due to a gain on commodity contracts and a deferred tax recovery. Capital expenditures in Q4-2014 decreased despite consistent wells drilled due to increased drilling activity in the Lloydminster area where wells carry a lower cost base than Michichi where drilling was focused in Q3.

*Three months ended September 30, 2014 (Q3-2014) compared to June 30, 2014 (Q2-2014)*
Total revenue was lower in Q3, 2014 compared to Q2 2014 despite higher volumes of production as a result of decreases in the realized prices. The net loss in Q3 -2014 was a result of the non-core sale of oil and gas interests at Pembina. Capital expenditures in Q3-2014 were increased from Q2-2014 as a result of the drilling of eight wells in Q3 2014 compared to only one well drilled in Q2-2014.

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

## NON-GAAP MEASURES

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

Operating netbacks are calculated by deducting royalties, production and operating and transportation expenses from revenues before other income/losses, and adding (deducting) commodity contract gains (losses).

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

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | Change | **2015** | 2014 | Change |
| Cash flow from operations | **2,440** | 9,967 | -76% | **19,974** | 30,214 | -34% |
| Decommissioning expenditures | **24** | 526 | -95% | **413** | 580 | -29% |
| Transaction costs | **143** | 574 | -75% | **1,100** | 574 | 92% |
| Changes in non-cash working capital | **(136)** | (237) | -43% | **(3,085)** | 5,944 | -152% |
| Funds flow from operations | **2,471** | 10,830 | -77% | **18,402** | 37,312 | -51% |

This MD&A and the financial statements also contain the term net debt and net debt to annualized funds flow from operations. Net debt and net debt to annualized funds flow from operations is calculated as net debt, defined as outstanding bank debt plus or minus net working capital (excluding fair value of commodity contracts), divided by annualized quarterly cash flow from operating activities before decommissioning expenditures, transaction costs and changes in non-cash working capital. Management considers net debt and net debt to annualized funds flow as important additional measures of the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds flow from operating activities remained constant.

**BOE Presentation**

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

## CRITICAL ACCOUNTING ESTIMATES

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, as at the statement of financial position date and the reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

The following discussion sets forth management's significant judgments and estimates made in preparation of these financial statements.

**Management Judgment and Estimates**

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

*Identification of cash-generating units*
Oil and natural gas interests, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The classification of assets into CGU's requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations. The Company has identified Michichi and Lloydminster as its core CGU's.

*Impairment of oil and natural gas assets*
Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are

based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

*Exploration and evaluation assets*
The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows.

*Deferred taxes*
Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

**Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

*Reserves*
The assessment of reported recoverable quantities proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying value of the Company's oil and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for decommissioning liabilities, and the recognition of deferred tax assets due to changes in expected future cash flows. The Company's petroleum and natural reserves are independently evaluated by reserve engineers at least annually and are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

*Decommissioning liabilities*
The calculation of decommissioning liabilities and related accretion expense includes management's estimates of current risk-free interest rates, future inflation rates, future restoration and reclamation expenditures and the timing of those expenditures. In most instances, removal of assets occurs many years in the future.

*Share based payments*
The amounts recorded for share-based compensation expense relating to the fair value of stock options and warrants issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value, quoted market value of the Company's shares at grant date, expected forfeiture rates, expected lives of the options and warrants (based on historical experience and general holder behaviours), and the risk-free interest rate (based on government bonds).

*Business combinations and asset acquisitions*
The values assigned to the common shares issued in the asset acquisitions completed in 2015 and 2014 and the allocation of the purchase price to the net assets in the acquisitions are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets, future oil and natural gas prices and other factors.

*Commodity Price Contracts*
The amounts recorded for the fair value of commodity contracts are based on estimates of future commodity prices, foreign exchange rates and the volatility in those prices.

*Deferred tax asset*
The amounts recorded for deferred tax assets are based on estimates as to the timing of the reversal of temporary differences, substantially enacted tax rates and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by tax authorities.

## CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies.

## FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements listed below that have been issued, but are not yet effective. There are no other standards or interpretations issued, but not yet adopted, that are anticipated to have a material effect on the reported loss or net assets of the Company.

*IAS 1, "Presentation of Financial Statements" ("IAS 1*") In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The Company does not expect the impact of the amendments to IAS 1 will have a material effect on the Company's financial statements.

*IFRS 9 Financial Instruments ("IFRS 9") (2013 & 2014)*
IFRS 9 (2013) significantly revises the existing hedge accounting guidance in IAS 39 Financial Instruments: Recognition and Measurement and is intended to align hedging with an entity's risk management strategies. IFRS 9 (2014) incorporates a further amendment to classification categories for financial assets, and includes a new impairment model. IFRS 9 (2013 & 2014) are effective for annual periods beginning on or after January 1, 2018. Marquee is currently evaluating the impact of the standards on the Company's financial statements.

*IFRS 15 Revenue from Contracts with Customers ("IFRS 15")*
IFRS 15 was issued in May 2014 and replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard is required to be adopted either retrospectively or using a modified transaction approach for fiscal years beginning on or after January 1, 2018 with earlier adoption permitted. Marquee is currently evaluating the impact of the standard on the Company's financial statements.

*IFRS 16 Leases ("IFRS 16")*
In October 2015, the IASB voted on the effective date of IFRS 16 "Leases" which replaces IAS 17 "Leases." The IASB is expected to issue the standard in 2015. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers." Marquee is currently evaluating the impact of the standard on the Company's consolidated financial statements.

## FORWARD-LOOKING INFORMATION AND STATEMENTS

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

- 2016 capital budget and expenditures;
- business strategies, objectives and outlook;
- Oil and natural gas sales;
- future production levels (including the timing thereof) and rates of average annual production growth;
- exploration and development plans;
- acquisition and disposition plans and the timing and the anticipated benefits thereof;
- anticipated cash flows;
- expected cost reductions and production efficiencies derived from recently acquired assets;
- number and quality of future potential drilling locations future drilling plans;
- expected debt levels;.
- operating and other expenses;
- royalty and income tax rates; and
- the timing of regulatory proceedings and approvals.

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

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

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

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

## DIRECTORS

**Glenn R. Carley**
*Chairman of the Board*

**James H. T. Riddell**

**Will Roach**

**Richard Thompson**

**Gregory G. Turnbull**

**Paul E. Moynihan**

**Robert J. Waters**

## OFFICERS AND SENIOR EXECUTIVES

**Richard Thompson**
*President and Chief Executive Officer*

**Dan Toews**
*Vice President Finance and Chief Financial Officer*

**Steve Bradford**
*Vice President, Land*

**Rob Lemermeyer**
*Vice President, Production*

**Dave Washenfelder**
*Vice President, Exploration*

**Sam Yip**
*Vice President, Engineering*

## CORPORATE HEADQUARTERS

**Marquee Energy Ltd.**
1700, 500 4th Ave SW
Calgary, Alberta, Canada
T2P 2V6

Tel: 403-384-0000
Fax: 403-265-0073
Emergency: 1-866-861-2053
E-mail: info@marquee-energy.com
Website: www.marquee-energy.com

## AUDITORS

**KPMG LLP**
Calgary, Alberta

## LEGAL COUNSEL

**Norton Rose Fulbright**
Calgary, Alberta

## TRANSFER AGENT AND REGISTRAR

**Computershare**
Calgary, Alberta

## RESERVE EVALUATORS

**Sproule Associates Ltd.**
Calgary, Alberta

## STOCK MARKET INFORMATION

TSX.V: MQL.V (CAD)
OTC: MQLXF (USD)

## ABBREVIATIONS

**Oil and Natural Gas Liquids**
*bbl – barrels*
*mcf –thousand cubic feet*
*NGL – natural gas liquids*
*boe – barrels of oil equivalent (6:1)*
*bbl/d – barrels per day*
*mcf/d – thousand cubic feet per day*
*boe/d – barrel of oil equivalent per day*

**Other**
*WTI – West Texas Intermediate*
*WCS – Western Canada Select*
*AECO – Alberta Energy Company*

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2015**

**KPMG LLP**
205-5th Avenue SW
Suite 3100, Bow Valley Square 2
Calgary AB
T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Marquee Energy Ltd.

We have audited the accompanying financial statements of Marquee Energy Ltd., which comprise the statement of financial position as at December 31, 2015, the statement of operations, changes in shareholders' equity and cash flows for the year 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Marquee Energy Ltd. as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Comparative Information*

The financial statements of Marquee Energy Ltd. as at and for the year ended December 31, 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 19, 2015.

KPMG LLP

Chartered Professional Accountants

April 6, 2016
Calgary, Canada

## STATEMENTS OF FINANCIAL POSITION

*(in thousands of Canadian dollars)*

| ($000s) | Note | **December 31, 2015** | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | | | |
| Accounts receivable | 5 | **6,144** | 10,239 |
| Prepaid and other expenses | | **1,344** | 994 |
| Commodity price contracts | 18c | **1,633** | 6,053 |
| Total current assets | | **9,121** | 17,286 |
| Exploration and evaluation assets | 6 | **14,600** | 34,329 |
| Property, plant and equipment | 7 | **204,220** | 223,791 |
| Deferred tax asset | 11 | **-** | 6,570 |
| Total assets | | **227,941** | 281,976 |
| | | | |
| **Liabilities** | | | |
| Current Liabilities | | | |
| Bank debt | 9 | **52,415** | 58,765 |
| Accounts payable and accrued liabilities | | **5,352** | 15,598 |
| Total current liabilities | | **57,767** | 74,363 |
| Decommissioning liabilities | 10 | **89,732** | 77,578 |
| Flow-through share premium | 12b | **621** | - |
| Total liabilities | | **148,120** | 151,941 |
| | | | |
| **Shareholders' Equity** | | | |
| Share capital | 12b | **180,436** | 179,438 |
| Contributed surplus | 13c | **11,894** | 9,687 |
| Deficit | | **(112,509)** | (59,090) |
| Total shareholders' equity | | **79,821** | 130,035 |
| Total liabilities and shareholders' equity | | **227,941** | 281,976 |

| | |
|---|---|
| Commitments | 17 |
| Subsequent events | 18c |

*See accompanying notes to the financial statements*

Approved on behalf of the Board:

(signed) "Glenn Carley"
Director

(signed) "Robert Waters"
Director

## STATEMENTS OF OPERATIONS

*(in thousands of Canadian dollars, except per share amounts)*

| | | Years ended December 31, | |
|---|---|---|---|
| | Note | **2015** | 2014 |
| **Revenue** | | | |
| Oil and natural gas sales | | **55,137** | 89,645 |
| Royalties | | **(6,603)** | (10,133) |
| Revenue, net of royalties | | **48,534** | 79,512 |
| Realized gain (loss) on commodity price contracts | | **9,198** | (1,605) |
| Unrealized gain (loss) on commodity price contracts | | **(4,420)** | 7,005 |
| Net revenue before expenses | | **53,312** | 84,912 |
| **Expenses** | | | |
| Production and operating | | **28,689** | 26,960 |
| Transportation | | **2,278** | 3,652 |
| General and administrative | | **6,186** | 6,556 |
| Finance | 14 | **3,377** | 4,623 |
| (Gain) loss on disposition oil and gas interests | 7 | **(1,669)** | 19,457 |
| Gain on acquisition of oil and gas interests | 7 | **(1,667)** | - |
| Transaction costs | | **1,100** | 574 |
| Share-based compensation | 13c | **1,674** | 1,094 |
| Depletion, depreciation and impairment | 7 | **41,603** | 38,553 |
| Exploration and evaluation | 6 | **19,128** | 2,558 |
| Total expenses | | **100,699** | 104,027 |
| Loss before income taxes | | **(47,387)** | (19,115) |
| Income tax expense (recovery) | | | |
| Current | | **-** | 194 |
| Deferred | 11 | **6,032** | (6,499) |
| Total income tax expense (recovery) | | **6,032** | (6,305) |
| **Net loss and comprehensive loss** | | **(53,419)** | (12,810) |
| Net loss per share | | | |
| Basic and diluted | 12c | **(0.44)** | (0.12) |

See *accompanying notes to the financial statements*

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

*(in thousands of Canadian dollars)*

| | Note | Share Capital | Contributed Surplus | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | 12b | 149,467 | 8,320 | (46,280) | 111,507 |
| Issued for cash | 12b | 20,125 | - | - | 20,125 |
| Issued on asset acquisition | 12b | 10,828 | - | - | 10,828 |
| Exercise of stock options | 12b | 42 | (16) | - | 26 |
| Share issue costs | 12b | (1,024) | - | - | (1,024) |
| Stock-based compensation | 13c | - | 1,383 | - | 1,383 |
| Net loss for the year | | - | - | (12,810) | (12,810) |
| Balance at December 31, 2014 | | 179,438 | 9,687 | (59,090) | 130,035 |
| | | | | | |
| Balance at January 1, 2015 | 12b | 179,438 | 9,687 | (59,090) | 130,035 |
| Issued for cash | 12b | 1,695 | - | - | 1,695 |
| Share issue costs | 12b | (76) | - | - | (76) |
| Flow-through share premium | 12b | (621) | - | - | (621) |
| Share-based compensation | 13c | - | 2,207 | - | 2,207 |
| Net loss for the year | | - | - | (53,419) | (53,419) |
| **Balance at December 31, 2015** | | **180,436** | **11,894** | **(112,509)** | **79,821** |

*See accompanying notes to the financial statements*

# STATEMENTS OF CASH FLOWS

*(Unaudited; in thousands of Canadian dollars)*

| | | Years ended December 31, | |
|---|---|---|---|
| | Note | **2015** | 2014 |
| **Cash flows from operating activities** | | | |
| Net loss for the year | | **(53,419)** | (12,810) |
| Adjustments for: | | | |
| Amortization of other liabilities | | **(111)** | (31) |
| Depletion, depreciation and impairment | 7 | **41,603** | 38,553 |
| Share-based compensation expense | 13c | **1,674** | 1,094 |
| Unrealized (gain) loss on commodity contracts | | **4,420** | (7,005) |
| (Gain) loss on disposition of oil and natural gas interests | 7 | **(1,669)** | 19,457 |
| Gain on acquisition of oil and gas interests | 7 | **(1,667)** | - |
| Accretion of decommissioning liabilities | 10 | **1,311** | 1,421 |
| Exploration and evaluation expenditures | 6 | **19,128** | 2,558 |
| Deferred tax expense (recovery) | 11 | **6,032** | (6,499) |
| Decommissioning expenditures | 10 | **(413)** | (580) |
| Changes in non-cash working capital | 15 | **3,085** | (5,944) |
| Net cash from operating activities | | **19,974** | 30,214 |
| | | | |
| **Cash flows used in investing activities** | | | |
| Exploration and evaluation asset expenditures | 6 | **(2,545)** | (15,115) |
| Property, plant and equipment expenditures | 7 | **(15,994)** | (43,160) |
| Asset acquisitions | 4 | **(27,049)** | (2,435) |
| Proceeds on disposition of property, plant, and equipment | 7 | **38,643** | 15,678 |
| Proceeds on disposition of exploration and evaluation assets | 6 | **10** | 50 |
| Changes in non-cash working capital | 15 | **(8,308)** | 225 |
| Net cash used in investing activities | | **(15,243)** | (44,757) |
| | | | |
| **Cash flows from (used in) financing activities** | | | |
| Repayments of bank debt | 9 | **(6,350)** | (4,243) |
| Proceeds from issue of share capital | 12b | **1,695** | 20,151 |
| Share issue costs | 12b | **(76)** | (1,365) |
| Net cash from (used in) financing activities | | **(4,731)** | 14,543 |
| | | | |
| Change in cash | | **-** | - |
| Cash, beginning of year | | **-** | - |
| **Cash, end of year** | | **-** | - |

*See accompanying notes to the financial statements*

## 1. GENERAL BUSINESS DESCRIPTION

Marquee Energy Ltd. ("Marquee" or the "Company") is engaged in the acquisition of, exploration for, development of and production of oil and natural gas. Marquee is a publicly traded company on the TSX Venture Exchange under the symbol "MQL.V", and on the United States OTC Market ("OTCQX") under the symbol "MQLXF", incorporated and domiciled in Canada. The Company's operations are in Alberta and Saskatchewan. The address of business of the Company is Suite #1700, 500 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 2V6.

On January 1, 2014, the Company's wholly owned subsidiary was amalgamated with the Company.

## 2. BASIS OF PRESENTATION

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A summary of the significant accounting policies and methods of computation are presented in note 3.

For the year ended December 31, 2015 the Company reclassified $2.5 million for the comparative 2014 year between sales and transportation expense related to tariff and other related charges.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except as otherwise allowed for in accordance with IFRS.

c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Managements judgments and estimates

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, as at the statement of financial position date and the reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

The following discussion sets forth management's significant judgments and estimates made in preparation of these financial statements.

*Critical judgments in applying accounting policies:*

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

(i) *Identification of cash-generating units*
Oil and natural gas interests, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash inflows and are used for impairment testing. The classification of assets into CGU's requires significant judgement and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations.

(ii) *Impairment of oil and natural gas assets*
Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

(iii) *Depletion of developed and producing assets*
For the purposes of depletion, the Company allocates its oil and natural gas assets to CGU's with similar lives and depletion methods. The groupings of assets are subject to management's judgement and are performed on the basis of geographical proximity and similar reserve life. The Company's oil and natural gas assets are depleted on a unit of production basis.

(iv) *Exploration and evaluation assets*
The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves as well as related future cash flows.

(v) *Deferred taxes*
Judgments are made by management to determine the likelihood of whether deferred tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit and loss in the period in which the change occurs.

*Key sources of estimation uncertainty:*

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) *Reserves*
The assessment of reported recoverable quantities proved and probable reserves include estimates regarding production volumes, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying value of the Company's oil and natural gas properties and equipment, the calculation of depletion and depreciation, the provision for

decommissioning liabilities, and the recognition of deferred tax assets due to changes in expected future cash flows. The Company's petroleum and natural reserves are independently evaluated by reserve engineers at least annually and are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

*(ii)* *Decommissioning liabilities*

The calculation of decommissioning liabilities and related accretion expense includes management's estimates of current risk-free interest rates, future inflation rates, future restoration and reclamation expenditures and the timing of those expenditures. In most instances, removal of assets occurs many years in the future.

*(iii)* *Share based payments*

The amounts recorded for share-based compensation expense relating to the fair value of stock options and warrants issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value, quoted market value of the Company's shares at grant date, expected forfeiture rates, expected lives of the options and warrants (based on historical experience and general holder behaviours), and the risk-free interest rate (based on government bonds).

*(iv)* *Business combinations and asset acquisitions*

The values assigned to the common shares issued in the asset acquisitions completed in 2014 and the allocation of the purchase price to the net assets in the acquisitions are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets, future oil and natural gas prices and other factors.

*(v)* *Commodity Contracts*

The amounts recorded for the fair value of commodity contracts are based on estimates of future commodity prices, foreign exchange rates and the volatility in those prices.

*(vi)* *Deferred tax asset*

The amounts recorded for deferred tax assets are based on estimates as to the timing of the reversal of temporary differences, substantially enacted tax rates and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by tax authorities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

a) Business combinations

Business combinations are accounted for using the acquisition method where the acquisitions of companies and assets meet the definition of a business under IFRS. The cost of an acquisition is measured initially at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. The acquired identifiable assets and liabilities are measured initially at their fair value at the date of acquisition. The fair value of exploration and evaluation assets and property, plant and equipment is the estimated amount for which these assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to discounted cash flows expected to be derived from oil and natural gas production based on internally and externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in the statement of operations. Associated transaction costs are expensed when incurred.

b) Jointly controlled assets

Many of the Company's oil and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Company's share of these jointly controlled assets, and a proportionate share of the relevant revenue and related costs.

c) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term, highly liquid investments with maturities of 90 days or less at the date of issue.

d) Exploration and evaluation expenditures and property, plant and equipment

(i) Exploration and evaluation assets

Pre-licence expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licences, exploration and evaluation drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated until after these assets are reclassified to property, plant and equipment. Exploration and evaluation assets, net of any impairment loss, are transferred to property, plant and equipment when proved and/or probable reserves are determined to exist. If an area is determined not to be technically feasible and commercially viable, or the Company discontinues its exploration and evaluation activity, the unrecoverable costs are expensed as exploration and evaluation expenditures.
Exchanges, swaps and farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the divestiture of exploration and evaluation assets are recognized in the statement of operations.

(ii) Property, plant and equipment

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs, transfers of exploration and evaluation assets and general and administrative costs directly attributable to the exploration and development of oil and natural gas interests. The costs of the day-to-day servicing of property, plant and equipment are recognized in income as incurred.

Exchanges or swaps of property, plant and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. Where the exchange is measured at fair value, a gain or loss is recognized in the statement of operations.

Gains and losses on disposal of an item of property, plant and equipment, property swaps and farm-outs including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and recognized in the statement of operations.

(iii) Depletion and depreciation

Oil and natural gas interests included in property, plant and equipment are depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Oil and natural gas interests including processing facilities and well equipment are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil.

Other assets, referred to as “corporate assets”, are depreciated on a declining balance basis at rates approximating their estimated useful lives of 20% per annum.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iv) Impairment

The carrying amounts of the Company’s property, plant and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property, plant and equipment or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount which for exploration and evaluation assets is generally the fair market value of undeveloped land at the time of impairment testing. An impairment loss is recognized if the carrying amount of an asset, or its CGU, exceeds its recoverable amount. Impairment losses are recognized in the statement of operations.

For the purposes of assessing impairments, exploration and evaluation assets and property, plant and equipment are tested separately and are grouped into CGUs, defined as the lowest levels for which there are separately identifiable independent cash inflows. Geological formation, product type, geography and internal management operations and processes are key factors considered when grouping Marquee's oil and natural gas interests into CGU's. Exploration and evaluation assets are tested with their related CGU or separately, where a CGU does not exist for the exploration and evaluation activity.

The recoverable amount of a CGU is the greater of its fair value less costs of disposal and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Fair value less costs of disposal may be determined using discounted future net cash flows of proved and probable reserves based on forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

The fair value less costs of disposal used to determine the recoverable amounts of property, plant and equipment and exploration and evaluation assets are classified at Level 3 fair value measurements, as they are not based on observable market data.

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 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, if no impairment loss had been recognized.

e) Provisions

Provisions are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event. Provisions are not recognized for future operating losses.

Decommissioning liabilities are recognized for decommissioning and restoration obligations associated with the Company's exploration and evaluation assets and property, plant and equipment. The best estimate of the expenditure required to settle the present obligations at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate at the statement of financial position date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property, plant and equipment asset and is depleted or amortized over the useful life of the asset. The provision is accreted over time through charges to finance expenses. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the decommissioning liability and related asset.

Actual decommissioning expenditures are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss in the statement of operations.

(f) Flow-through shares

From time to time, the Company finances a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to subscribers. The stated capital recorded on flow-through share issuances is equal to the estimated fair value of the common shares, exclusive of the flow-through component, on the date of issue. The difference between the gross proceeds received and the stated capital recorded is recorded as a liability ("flow-through share premium") until qualifying expenditures are incurred. When the expenditures are incurred, the flow-through share premium is drawn down and the resulting deferred tax liability is recorded through income tax expense, less the reversal of the flow-through share premium previously reported.

(g) Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of operations, except to the extent that it relates to items recognized directly in equity or other comprehensive income.

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

Deferred tax is recognized using the statement of financial position 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 liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

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 taxation authority on the same taxable entity. They can also be offset on different tax entities if they are intended to be settled on a net basis or they will be realized simultaneously.

(h) Share-based payments

Stock options and warrants granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation or other equity costs are recorded based on the estimated fair value of the stock options and warrants at the grant date using the Black-Scholes option pricing model and other pricing models.

The Company measures share based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options/warrants granted will be used, measured using the Black-Scholes option pricing model.

Each tranche in an award is considered a separate award with its own vesting period. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options or warrants are exercised, the cash proceeds, along with the amount previously recorded as contributed surplus, are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

(i) Per share amounts

Per share amounts are calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments. The Company computes the dilutive impact of common shares assuming the proceeds received from the exercise of in-the-money share options and warrants are used to purchase common shares at the average market prices for the period.

(j) Revenue

Revenue from the production and sale of oil and natural gas is recognized when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when title passes from the Company to the customer and collection is reasonable assured. Revenue is measured at the fair value of the consideration received or receivable based on price, volumes delivered and contractual delivery points.

(k) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in the statement of operations, using the effective interest method.

Finance expense is comprised of interest expense on borrowings, accretion of the discount on decommissioning liabilities and impairment losses recognized on financial assets.

(l) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. The Company has designated accounts receivable as “loans and receivables” and bank debt and accounts payable and accrued liabilities as “financial liabilities measured at amortized cost”. These financial instruments are measured at amortized cost using the effective interest rate method, less any impairment losses.

(ii) *Derivative financial instruments – Commodity contracts*

The Company enters into certain financial derivative contracts in order to manage exposure to market risks from fluctuations in commodity prices. The Company's policy is not to utilize derivative financial instruments for speculative purposes. All financial derivative contracts are classified as “fair value through profit or loss” and recorded at fair value with changes in fair value recorded in the statement of operations. The fair value of these derivative instruments are generally based on an estimate of the amounts that would be paid or received to settle these instruments at the statement of financial position date.

(iii) *Equity instruments*

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

(iv) *Impairment*

The Company assesses at each statement of financial position date, whether there is objective evidence that financial assets, other than those designated as “fair value through profit or loss” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of operations. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

(m) Interest and capital taxes paid

The Company presents cashflows related to interest and capital taxes paid as operating activities in conformity with industry practice.

(n) Fair value determination

A number of the Company’s accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining the fair values is disclosed in the notes specific to that asset or liability.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

*Accounts receivables, accounts payable and accrued liabilities and bank debt*
The fair value of accounts receivables, accounts payable and accrued liabilities and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2015 and 2014, the fair value of accounts receivables, accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating rate of interest and the margin charged by the lender is indicative of current credit spreads.

*Derivatives*

The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward curves at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate. The Company classifies its derivatives as Level 2.

(o) Future accounting pronouncements:

- *IAS 1, "Presentation of Financial Statements" ("IAS 1*") In December 2014, the IASB issued amendments to IAS 1, clarifying guidance on the concepts of materiality and aggregation of items in the financial statements, the use and presentation of subtotals in the statement of operations and the statement of comprehensive income or loss, and providing additional flexibility in the structure and disclosures of the financial statements to enhance understandability. The amendments to IAS 1 may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016. The Company does not expect the impact of the amendments to IAS 1 will have a material effect on the Company's financial statements.

- *IFRS 9, "Financial Instruments" ("IFRS 9")* IFRS9 provides a comprehensive new standard for accounting for all aspects of financial instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple category and measurement models in IAS 39. The approach in IFRS 9 focuses on how an entity manages its financial instruments in the context of its business model, as well as the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods currently provided in IAS 39.

  Requirements for financial liabilities were added to IFRS 9 in October 2010. Although the classification criteria for financial liabilities did not change under IFRS 9, the fair value option requires different accounting for changes to the fair value of a financial liability resulting from changes to an entity's own credit risk.

  In December 2013, new hedge accounting requirements were incorporated into IFRS 9 that increase the scope of items that can qualify as a hedged item and change the requirements of hedge effectiveness testing that must be met to use hedge accounting.

  In July 2014, the IASB issued final amendments to IFRS 9, replacing earlier versions of IFRS 9. These amendments to IFRS 9 introduce a single, forward-looking 'expected loss' impairment model for financial assets which will require more timely recognition of expected credit losses, and a fair value through other comprehensive income category for financial assets that are debt instruments.

  The amendments to IFRS 9 are effective for annual periods beginning on or after January 1, 2018 and are available for earlier adoption. The Company does not expect that the implementation of IFRS 9 will have a material effect on the Company's financial statements.

- *IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"*) In May 2014, the IASB issued IFRS 15. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied prospectively and is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is in the process of evaluating the impact that IFRS 15 may have on the Company's financial statements.

- *IFRS 16, "Leases" ("IFRS 16"*) In January 2016, the IASB issued IFRS 16 Leases. It replaces the existing leasing standard (IAS 17 Leases) and provides transparency on companies' lease assets and liabilities by removing off balance sheet lease financing and will improve comparability between companies that lease and those that borrow to buy. IFRS 16 is effective January 1, 2019, with earlier application permitted. The Company is currently assessing the impact of this standard.

## 4. ACQUISITIONS

a) March 2015

On March 25, 2015, the Company acquired certain oil and natural gas properties for total consideration of $16.3 million including $14.4 million in cash and the conveyance and exchange of non-core gas assets valued at $1.9 million. The transaction allowed the Company to acquire undeveloped land, as well as additional production in its core Michichi area.

Amendments may be made to these amounts as values subject to estimates are finalized. The allocation of the purchase price, using the purchase method of accounting, is as follows:

| **Purchase price allocation** | ($000s) |
|---|---|
| Fair value of net assets acquired: | |
| Property, plant and equipment | 16,701 |
| Decommissioning liabilities | (407) |
| Net assets acquired | 16,294 |
| **Costs of acquisition** | |
| Cash consideration | 14,362 |
| Property, plant and equipment | 1,932 |
| Total consideration | 16,294 |

Had the transaction been completed on January 1, 2015, the incremental oil and natural gas revenue and net loss for the year ended December 31, 2015 representing proforma results would have been as follows:

| **Year ended December 31, 2015** | **As stated ($)** | **Transaction ($)** | **Pro Forma ($)** |
|---|---|---|---|
| Oil and natural gas revenue | 55,137 | 1,572 | 56,709 |
| Net loss | (53,419) | 779 | (52,640) |

b) August 2015

On August 19, 2015, the Company acquired certain oil and natural gas properties and related infrastructure for total consideration of $12.7 million in cash.

The gain on acquisition is representative of distressed market conditions relative to fair value, and the monetization of related infrastructure (note 7).

Amendments may be made to these amounts as values subject to estimates are finalized. The allocation of the purchase price, using the purchase method of accounting, is as follows:

| **Purchase price allocation** | ($000s) |
|---|---|
| Fair value of net assets acquired: | |
| Prepaid assets | 1,138 |
| Property, plant and equipment | 17,713 |
| Decommissioning liabilities | (4,011) |
| Deferred tax liability | (538) |
| Net assets acquired | 14,302 |
| **Costs of acquisition** | |
| Cash consideration | 12,687 |
| Gain on acquisition | 1,615 |

Had the transaction been completed on January 1, 2015, the incremental oil and natural gas revenue and net loss for the year ended December 31, 2015 representing proforma results would have been as follows:

| Year ended December 31, 2015 | As stated ($) | Transaction ($) | Pro Forma ($) |
|---|---|---|---|
| Oil and natural gas revenue | 55,137 | 2,505 | 57,642 |
| Net loss | (53,419) | 579 | (52,840) |

## 5. ACCOUNTS RECEIVABLE

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Oil and natural gas marketing companies | **4,944** | 7,423 |
| Joint interest partners and other | **1,200** | 2,521 |
| Government agencies | **-** | 295 |
| Total | **6,144** | 10,239 |

## 6. EXPLORATION AND EVALUATION ASSETS

| Cost | ($000's) |
|---|---|
| Balance, December 31, 2013 | 26,600 |
| Capital expenditures | 15,115 |
| Acquisition of exploration and evaluation assets | 3,828 |
| Transfers to property, plant and equipment (note 7) | (8,606) |
| Exploration and evaluation costs expensed | (2,558) |
| Dispositions of exploration and evaluation assets | (50) |
| **Balance, December 31, 2014** | **34,329** |
| Capital expenditures | 2,545 |
| Transfers to property, plant and equipment (note 7) | (3,111) |
| Exploration and evaluation costs expensed | (19,128) |
| Dispositions of exploration and evaluation assets | (35) |
| **Balance, December 31, 2015** | **14,600** |

Exploration and evaluation assets include undeveloped lands and assets that have not been fully evaluated for technical feasibility and commercial viability. Capital expenditures represent the Company's share of costs incurred on exploration and evaluation assets during the period. Transfers to property, plant and equipment represent successful drilling and related land costs to which technical feasibility and commercial viability are determined to exist.

During the year ended December 31, 2015, the Company expensed $19.1 million (2014 - $2.6 million) of certain costs previously capitalized as exploration and evaluation assets due to undeveloped land expiries and areas the Company does not intend to pursue further in an exploration capacity. These amounts have been included as exploration and evaluation expenditures in the Statement of Operations.

*(in thousands of Canadian dollars, unless otherwise noted)*

## 7. PROPERTY, PLANT AND EQUIPMENT

| | Oil and natural gas interests | Corporate assets | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2013 | 266,655 | 430 | 267,085 |
| Capital expenditures | 43,386 | 63 | 43,449 |
| Dispositions | (46,337) | - | (46,337) |
| Acquisition of oil and natural gas properties | 27,241 | - | 27,241 |
| Transfers from exploration and evaluation assets (note 6) | 8,606 | - | 8,606 |
| Change in decommissioning liabilities (note 10) | 13,549 | - | 13,549 |
| Balance, December 31, 2014 | 313,100 | 493 | 313,593 |
| Capital expenditures | 16,190 | 243 | 16,433 |
| Dispositions | (48,936) | - | (48,936) |
| Acquisition of oil and natural gas properties (note 4) | 34,414 | - | 34,414 |
| Transfers from exploration and evaluation assets (note 6) | 3,111 | - | 3,111 |
| Change in decommissioning liabilities (note 10) | 11,742 | - | 11,742 |
| **Balance, December 31, 2015** | **329,621** | **736** | **330,357** |

| | | | |
|---|---|---|---|
| **Accumulated depletion, depreciation and impairments** | | | |
| Balance, December 31, 2013 | (60,495) | (179) | (60,674) |
| Depletion and depreciation expense | (32,867) | (81) | (32,948) |
| Dispositions | 9,425 | - | 9,425 |
| Impairment | (5,605) | - | (5,605) |
| Balance, December 31, 2014 | (89,542) | (260) | (89,802) |
| Depletion and depreciation expense | (35,204) | (219) | (35,423) |
| Dispositions | 5,268 | - | 5,268 |
| Impairment (note 8) | (6,180) | - | (6,180) |
| **Balance, December 31, 2015** | **(125,658)** | **(479)** | (126,137) |

| | | | |
|---|---|---|---|
| **Net book value** | | | |
| At December 31, 2014 | 223,558 | 233 | 223,791 |
| **At December 31, 2015** | **203,963** | **257** | **204,220** |

During the year ended December 31, 2015, the Company capitalized salaries of $0.7 million (2014 - $0.8 million) as well as related share-based compensation expense of $0.5 million (2014 - $0.3 million) for employees and consultants who performed services that were directly attributable to development activities.

On March 24, 2015 the Company closed an arrangement with a third party for the sale of a production volume royalty ("PVR") on its Lloydminster property. Total consideration for the arrangement was $20 million with a disposal of property, plant and equipment having a carrying value of $19 million resulting in a gain on sale of $1.0 million (note 17a).

On March 25, 2015 the Company completed an acquisition in the Michichi area for $16.3 million comprised of $14.4 million in cash consideration in addition to the conveyance and exchange of certain non-core gas properties valued at $1.9 million with a carrying value of $1.5 million (note 4).

On August 19, 2015 the Company completed a transaction to acquire oil and natural gas properties and related infrastructure in the Michichi area for $12.7 million in cash resulting in a gain on acquisition of $1.6 million (note 4).

On August 19, 2015 Marquee completed a facility arrangement with a third party under which the Company received $15.0 million in cash, before transaction costs, in exchange for the sale of a gas plant. The facility has a net book value of $16.0 million with an associated asset retirement cost of $1.0 million (note 10).

*(in thousands of Canadian dollars, unless otherwise noted)*

During the year ended December 31, 2015, the Company completed the sale of certain non-core properties for net proceeds of $3.7 million (2014 – $1.8 million) with an associated asset retirement cost of $4.2 million (note 10). A $0.3 million gain related to non-core dispositions (2014 – $1.4 million) was recognized in earnings.

The calculation of depletion and depreciation included estimated future development costs of $166.2 million (December 31, 2014: $151.9 million) associated with the development of the Company's proved plus probable crude oil and natural gas reserves.

## 8. IMPAIRMENT

At December 31, 2015, it was determined that the significant decline of commodity prices was an indication of impairment, and impairment tests were performed on the Company's CGUs. The recoverable amounts of the Company's CGUs were estimated based on the higher of the *value in use* and the *fair value less costs to sell.* The recoverable amount for the year-ended December 31, 2015 was determined using *value in use*, based on the net present value of the before tax cash flows from oil and natural gas proved plus probable reserves estimated by the Company's external reserve evaluators discounted at a pre-tax rate of 8% to 12% per annum (2014 – 8% to 12%).

The forecast prices used to determine fair value reflect the following benchmark prices, adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality.

| | WTI (Oil) (US$/bbl) | WCS (Cdn$/bbl) | AECO Gas (Cdn$/mmbtu) | Foreign exchange $US/$Cdn |
|---|---|---|---|---|
| 2016 | 55.20 | 45.26 | 2.25 | 0.75 |
| 2017 | 69.00 | 57.96 | 2.95 | 0.80 |
| 2018 | 78.43 | 65.88 | 3.42 | 0.83 |
| 2019 | 89.41 | 75.11 | 3.91 | 0.85 |
| 2020 | 91.71 | 77.03 | 4.20 | 0.85 |
| 2021 | 93.08 | 78.19 | 4.28 | 0.85 |
| 2022 | 94.48 | 79.36 | 4.35 | 0.85 |
| 2023 | 95.90 | 80.55 | 4.43 | 0.85 |
| 2024 | 97.34 | 81.76 | 4.51 | 0.85 |
| 2025 | 98.80 | 82.99 | 4.59 | 0.85 |
| 2026 | 100.28 | 84.23 | 4.67 | 0.85 |
| Remainder | +1.5%/yr | +1.5%/yr | +1.5%/yr | 0.85 thereafter |

A decrease in the West Texas Intermediate ("WTI") and Western Canadian Select ("WCS") future oil price estimates combined with a decrease in the future AECO natural gas price as compared to those used in the December 31, 2014 estimates has resulted in impairment charges related to the Heavy oil and Non-core CGUs for $5.4 million and $0.8 million respectively, due to the carrying value exceeding its recoverable amount. After impairment the recoverable amount of the Heavy oil CGU was $6.4 million, and the Non-core CGU was $nil.

## 9. BANK DEBT

At December 31, 2015, the Company has a syndicated credit facility ("facility") with two Canadian Chartered Banks. The facility has a borrowing base of $70.0 million (2014 - $80 million) with a facility restriction to $60.0 million, comprised of a $60 million (2014- $70 million) revolving demand facility ("revolving loan") and a $10 million (2014 - $10 million) operating demand facility ("operating loan"). The maximum availability of the facility may be increased up to the borrowing base if agreed to by all lenders in their sole discretion subject to review and consent.

The revolving and operating loans can be used for general corporate purposes and capital expenditures, and bear interest at either the Banks' prime rate plus an applicable margin (of 50 bps to 250 bps) or, Bankers Acceptance ("BA") rates plus an additional margin (of 175 bps to 375 bps) both determined by reference to the Company's net debt to funds from operations ratio calculated as working capital, excluding the fair value of any commodity contracts, over annualized trailing quarterly cash flow from operating activities before working capital adjustments. At December 31, 2015 the interest rate is prime plus 250 bps and the BA rate is quoted plus 375 bps.

*(in thousands of Canadian dollars, unless otherwise noted)*

The credit facility is secured by a general assignment of book debts and a $150 million demand debenture with a floating charge over all assets of the Company with an undertaking to provide fixed charges on the Company's producing petroleum and natural gas properties at the request of the banks. As the available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available facilities that will be determined at each scheduled review. The next scheduled review for the credit facilities is May 31, 2016.

At December 31 2015, the Company had drawn $50.3 million on the revolving loan and $2.1 million on the operating loan. At December 31, 2015 the Company has a letter of guarantee outstanding for $0.8 million for the Oil and Gas Orphan Fund of the Province of Saskatchewan which reduces the amount available under the operating loan.

The Company is subject to a financial covenant that requires it to maintain an adjusted working capital ratio of at least 1:1 (for the purposes of compliance with the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the operating and revolving loan is added to working capital).

At December 31, 2015, the Company was in compliance with the adjusted working capital ratio covenant of 2.7 to 1.0 (at December 31, 2014 – 2.0 to 1.0).

## 10. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities are an estimate of the reclamation and abandonment costs arising from its ownership in oil and natural gas assets, including well sites, batteries and gathering systems. At December 31, 2015 the total undiscounted cash flows required to settle the liabilities is approximately $113.6 million (December 31, 2014- $125.7 million). The estimated net present value of the decommissioning liabilities was calculated using a risk-free rate between approximately 1% and 3% at December 31, 2015 (2014 - between 1% and 3%) based on the Bank of Canada benchmark bond yields corresponding to the estimated time of reclamation and an inflation rate of 2% (December 31, 2014 - 2%).

These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 35 years into the future and will be funded from general corporate resources at the time of abandonment. The majority of the costs will be incurred between 2020 and 2042.

The following table summarizes changes in the decommissioning liabilities:

| | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Decommissioning liabilities, beginning of year | **77,578** | 46,885 |
| New liabilities recognized | **262** | 1,444 |
| Change in estimates [1] | **11,742** | 12,105 |
| Liabilities assumed on acquisitions (note 4) | **4,419** | 18,081 |
| Liabilities settled on dispositions (note 7) | **(5,167)** | (1,778) |
| Actual costs incurred | **(413)** | (580) |
| Accretion | **1,311** | 1,421 |
| Decommissioning liabilities, end of year | **89,732** | 77,578 |

(1) Changes in the status of wells, discount rates and the estimates of costs of abandonment and reclamation are factors resulting in a change in estimate. For the year ended December 31, 2015, the change in estimate included $5.7 million of cost decreases resulting from additional information due to asset acquisitions and review of third party and internal information, and an increase of $17.4 million related to the change in discount rates.

*(in thousands of Canadian dollars, unless otherwise noted)*

## 11. INCOME TAXES

a) Income tax expense (recovery)

The amount for income tax expense (recovery) in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Company's loss before income taxes. The difference results from the following items:

| | **December 31, 2015 ($)** | December 31, 2014 ($) |
|---|---|---|
| Loss before income taxes | **(47,387)** | (19,115) |
| Combined federal and provincial tax rate | **26%** | 25% |
| Expected income tax recovery | **(12,321)** | (4,779) |
| Share-based compensation and other non-deductible expenses | **153** | 273 |
| Flow-through shares | **-** | 1,652 |
| Change in statutory tax rates and other | **(1,690)** | 11 |
| Change in unrecognized deferred tax asset | **19,890** | (1,723) |
| Sub-total | **6,032** | (4,566) |
| Flow-through share premium | **-** | (1,739) |
| Income tax expense (recovery) per Statement of Operations | **6,032** | (6,305) |
| Tax expense recorded directly in gain on acquisition | **538** | - |
| Total income tax expense (recovery) | **6,570** | (6,305) |

The income tax rate change year over year is due to an increase in the Alberta provincial corporate tax rate from 10% to 12% effective July 1, 2015.

b) Deferred tax asset (liability)

At December 31, 2015, a deferred tax asset of $nil (2014 –$6.6 million) has been recognized in the financial statements. The components of the deferred tax asset are as follows:

| | **December 31, 2015 ($)** | December 31, 2014 ($) |
|---|---|---|
| Deferred tax liabilities | | |
| E&E and PPE assets | **(18,747)** | (24,219) |
| Commodity price contracts | **(441)** | (1,513) |
| Deferred tax assets | | |
| Decommissioning liabilities | **18,691** | 19,394 |
| Share issue costs and other | **497** | 581 |
| Non-capital losses | **-** | 12,327 |
| Net deferred tax asset | **-** | 6,570 |

| | **December 31, 2015 ($)** | December 31, 2014 ($) |
|---|---|---|
| Temporary differences associated with unrecognized deferred tax assets: | | |
| Non-capital losses (1) | **69,670** | - |
| E&E and PPE assets | **-** | 17,739 |
| Decommissioning liabilities | **20,496** | - |
| | **90,166** | 17,739 |

(1) - Expire between 2023-2035

*(in thousands of Canadian dollars, unless otherwise noted)*

c) The following tables provide a continuity of the deferred tax asset:

| | Balance January 1, 2015 ($) | Recognized in net income (loss) ($) | Recognized in equity ($) | Acquired in asset acquisition ($) | Flow-through share premium ($) | Balance December 31, 2015 ($) |
|---|---|---|---|---|---|---|
| E&E and PPE assets | (24,219) | 5,472 | - | - | - | (18,747) |
| Decommissioning liabilities | 19,394 | (703) | - | - | - | 18,691 |
| Commodity price contracts | (1,513) | 1,072 | - | - | - | (441) |
| Share issue costs and other | 581 | (84) | - | - | - | 497 |
| Non-capital losses | 12,327 | (12,327) | - | - | - | - |
| | 6,570 | (6,570) | - | - | - | - |

| | Balance January 1, 2014 ($) | Recognized in net income (loss) ($) | Recognized in equity ($) | Acquired in asset acquisition ($) | Flow-through share premium ($) | Balance December 31, 2014 ($) |
|---|---|---|---|---|---|---|
| E&E and PPE assets | (24,897) | 6,663 | - | (4,246) | (1,739) | (24,219) |
| Decommissioning liabilities | 11,862 | 3,012 | - | 4,520 | - | 19,394 |
| Commodity price contracts | 241 | (1,754) | - | - | - | (1,513) |
| Share issue costs and other | 679 | (439) | 341 | - | - | 581 |
| Non-capital losses | 13,310 | (983) | - | - | - | 12,327 |
| | 1,195 | 6,499 | 341 | 274 | (1,739) | 6,570 |

## 12. SHARE CAPITAL

a) Authorized

Unlimited number of common shares with voting rights.
Unlimited number of preferred shares, issuable in series.

b) Issued

The following table summarizes the changes in common shares outstanding:

| | Number of Common Shares | Stated Amount ($) |
|---|---|---|
| Outstanding, December 31, 2013 | 84,489,147 | 149,467 |
| Common shares issued for cash | 22,115,650 | 20,125 |
| Common shares issued on asset acquisition | 13,705,888 | 10,828 |
| Share issue costs | - | (1,024) |
| Common shares issued on exercise of stock options | 30,000 | 42 |
| Outstanding, December 31, 2014 | 120,340,685 | 179,438 |
| Flow-through common shares issued | 2,824,967 | 1,695 |
| Flow-through share premium | - | (621) |
| Share issue costs | - | (76) |
| **Outstanding, December 31, 2015** | **123,165,652** | **180,436** |

On December 22, 2015, the Company issued 2,824,967 flow-through shares at $0.60 per flow-through common share. Total proceeds were $1.7 million and share issue costs were $0.1 million. The Company committed to spend 100% of the flow-through funds on qualifying expenditures by December 31, 2016. In conjunction with the issuance, the Company recognized a flow-through share premium of $0.6 million.

c) Per Share Amounts

The following table summarizes the common shares used in calculating basic and diluted loss per share:

| | Years ended December 31 | |
|---|---|---|
| | **2015** | 2014 |
| (000s, except share and per share amounts) | | |
| Net loss for the year | **$ (53,419)** | $ (12,810) |
| Weighted-average number of common shares | | |
| Basic and diluted | **120,410,342** | 110,492,215 |
| Net loss per weighted-average common share | | |
| Basic and diluted | **$ (0.44)** | $ (0.12) |

For the year ended December 31, 2015 and 2014, all warrants and options have been excluded from the calculation of diluted loss per share as they would have been anti-dilutive.

## 13. SHARE-BASED PAYMENTS

a) Share option plan

Under the Company's share option plan, the Company may grant options to its directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares at the time of the option grant. The maximum number of common shares optioned to any one optionee during a twelve month period shall not exceed 5% (2% for consultants) of the outstanding common shares of the Company at the time of grant. Options granted under the plan have a five year term and have vesting periods as determined by the Company's directors at the date of grant. The exercise price of each option equals the market price of the Company's share of the date of grant.

The following table summarizes the changes in the stock options outstanding:

| | Number | Weighted Average Exercise Price ($) |
|---|---|---|
| Outstanding, December 31, 2013 | 3,418,787 | 1.20 |
| Granted | 7,460,000 | 1.00 |
| Exercised | (30,000) | 0.87 |
| Forfeited and/or cancelled | (725,185) | 1.04 |
| Outstanding, December 31, 2014 | 10,123,602 | 1.06 |
| Granted | 4,110,000 | 0.54 |
| Forfeited and/or cancelled | (6,343,602) | 1.21 |
| **Outstanding, December 31, 2015** | **7,890,000** | **0.67** |
| **Exercisable, December 31, 2015** | **2,270,000** | **0.82** |

During the year ended December 31, 2015 the Company granted 4,110,000 options at a weighted average exercise price of $0.54. The options granted vest one-quarter on each of the six, twelve, twenty-four and thirty-six month anniversaries from the grant date and have a five year term.

*(in thousands of Canadian dollars, unless otherwise noted)*

The following table summarizes the expiry terms and exercise prices of the Company's outstanding stock options as at December 31, 2015:

| Exercise Price | Outstanding Options | Weighted Average Remaining Contractual Term (years) | Weighted Average Exercise Price ($) | Outstanding Options Exercisable | Weighted Average Remaining Contractual Term Exercisable (years) | Weighted Average Exercise Price Exercisable ($) |
|---|---|---|---|---|---|---|
| $0.41 to $0.50 | 620,000 | 4.9 | 0.48 | 55,000 | 4.9 | 0.49 |
| $0.51 to $0.60 | 3,320,000 | 4.6 | 0.52 | 117,500 | 4.0 | 0.52 |
| $0.61 to $0.70 | 360,000 | 2.5 | 0.65 | 270,000 | 2.5 | 0.65 |
| $0.71 to $0.80 | 1,910,000 | 3.1 | 0.80 | 685,000 | 3.1 | 0.80 |
| $0.81 to $5.44 | 1,680,000 | 2.4 | 0.91 | 1,142,500 | 2.1 | 0.92 |
| | 7,890,000 | 3.7 | 0.67 | 2,270,000 | 2.6 | 0.82 |

b) Warrants

The Company issued warrants to directors of the Company. All remaining warrants as at December 31, 2015 will expire on June 12, 2016. The following table summarizes the changes in the warrants outstanding:

| Warrants | Number | Weighted Average Exercise Price ($) |
|---|---|---|
| Outstanding, December 31, 2014 | 1,679,835 | 1.59 |
| Expired | (533,608) | 2.42 |
| Outstanding and exercisable, December 31, 2015 | 1,146,226 | 1.20 |

The warrants have a term of five years, are exercisable into one common share, 1/3 become exercisable if the 20-day weighted average trading price of Marquee common shares is equal to or greater than $4.40 at any time before the expiry date. A further 1/3 will be exercisable if the 20-day weighted average trading price of Marquee common shares is equal to or greater than $6.00 at any time before the expiry and the final 1/3 will be exercisable if the 20-day weighted average trading price of Marquee common shares is equal to or greater than $7.60 at any time before the expiry date.

c) Stock-based compensation expense

Compensation costs relating to stock options of $1.7 million for the year ended December 31, 2015 (2014 - $1.1 million) have been expensed and $0.5 million (2014- $0.3 million) has been capitalized to property, plant and equipment and have resulted in a corresponding increase in contributed surplus.

The fair value of stock options granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Risk-free interest rate | **1%** | 2% |
| Expected volatility | **69%** | 60% |
| Expected life | **5 years** | 5 years |
| Expected dividend yield | **N/A** | N/A |
| Estimated forfeiture rate | **10%** | 0% |
| Fair value per option | **$0.31** | $0.50 |
| Stock price on grant date | **$0.54** | $1.00 |

*(in thousands of Canadian dollars, unless otherwise noted)*

## 14. FINANCE EXPENSE

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| Accretion of decommissioning liabilities | **1,311** | 1,421 |
| Interest on bank debt | **1,790** | 3,202 |
| Bad debt expense | **276** | - |
| | **3,377** | 4,623 |

## 15. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Source/(use) of cash: | | |
| Accounts receivable | **4,095** | (6,009) |
| Prepaid and other expenses | **928** | (274) |
| Accounts payable and accrued liabilities | **(10,246)** | 564 |
| Changes in non-cash working capital | **(5,223)** | (5,719) |
| | | |
| Related to operating activities | **3,085** | (5,944) |
| Related to investing activities | **(8,308)** | 225 |
| Changes in non-cash working capital | **(5,223)** | (5,719) |

The following are included in cashflows from operating activities:

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| Capital taxes paid in cash | **5** | 190 |
| Interest paid in cash | **2,073** | 3,202 |

## 16. RELATED PARTY TRANSACTIONS

The remuneration of the key management personnel of the Company, which includes both directors and officers, is set out below in aggregate:

| | Year ended December 31, 2015 | Year ended December 31, 2014 |
|---|---|---|
| Short-term employee benefits and director fees | **1,723** | 1,735 |
| Severance | **200** | 60 |
| Share-based compensation | **1,401** | 769 |
| | **3,324** | 2,564 |

*(in thousands of Canadian dollars, unless otherwise noted)*

## 17. COMMITMENTS

a) On March 24, 2015 the Company closed an arrangement with a third party for the sale of a production volume royalty ("PVR") on its Lloydminster property. The royalty volume amounts to 137.5 bbls of oil per day until February 28, 2023, subject to a 20% reduction per year thereafter, on a declining balance basis. As part of this transaction, Marquee has committed to drill four net wells each calendar year from 2016 until 2022, two of which shall be horizontal, resulting in a minimum of $2.75 million in capital expenditures per calendar year.

b) On August 19, 2015 Marquee completed a facility arrangement with a third party under which the Company received $15.0 million in cash, before transaction costs, in exchange for the sale of a gas plant. Pursuant to the arrangement, the Company has been contracted by the purchaser to operate the facility over a 7.5 year term and will continue to process gas from certain producing properties. Marquee will pay the purchaser an annual facility tariff fee of $2.3 million for the life of the agreement, but retain all third party processing revenues generated.

c) On December 22, 2015, the Company issued 2,824,967 flow-through shares at $0.60 for total proceeds of $1.7 million and associated share issue costs of $0.1 million. The Company committed to spend 100% of the flow-through funds on qualifying expenditures by December 31, 2016.

d) The Company has lease commitments for office premises that expire in 2020. Future minimum lease payments, including operating costs, are as follows:

| | Amount ($) |
|---|---|
| Less than one year | 258 |
| Between one and five years | 1,341 |
| | 1,599 |

## 18. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

The Company's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk and how they arise. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. There were no changes to the Company's risk management policies and procedures during the year ended December 31, 2015.

(a) Credit risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

*(in thousands of Canadian dollars, unless otherwise noted)*

The Company's accounts receivable are from companies in the oil and natural gas industry and are subject to normal industry credit risks. Credit risks arise principally from the amounts owing to the Company from purchasers of the Company's oil and natural gas production (oil and natural gas marketers), joint interest partners and government agencies and are subject to normal industry credit risk.

Receivables from oil and natural gas marketers are generally collected on the 25th day of the month following production and sale. Management of the Company believes the risk is mitigated by the size and reputation of the companies to which they extend credit. During 2015 and 2014, the Company has not experienced any collection issues with its marketers.

Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partners. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval of significant capital expenditures prior to expenditure and, in certain circumstances, may elect to cash call a joint interest partner in advance of the work. 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, escalation costs and the risk of unsuccessful drilling. The Company does not typically obtain collateral from oil and natural gas marketers or joint interest partners; however, the Company does have the ability to withhold production from joint interest partners in the event of non-payment. During 2015 and 2014, the Company has not experienced any significant collection issues with its joint interest partners.

The Company's accounts receivable are aged as follows:

| | **December 31, 2015 ($)** | December 31, 2014 ($) |
|---|---|---|
| Current (less than 90 days) | **5,560** | 10,149 |
| Past due (more than 90 days) | **584** | 90 |
| | **6,144** | 10,239 |

The carrying amount of $6.1 million of accounts receivable, net of provision for bad debts of $0.3 million, represents the maximum credit exposure and management believes all remaining receivables will be collected. In addition, the Company is subject to credit risks associated with possible non-performance by counterparties related to the commodity contracts outstanding at December 31, 2015 of $1.6 million but mitigates the risk by selecting major Canadian financial institutions as counterparties.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows. The Company may need to conduct equity issues or review alternate debt facilities if liquidity risks increase in a given period. The Company also has a credit facility to facilitate the management of liquidity risk. See note 9 for credit facility disclosure. The Company is required to meet certain financial commitments as described in note 9. The Company believes it has sufficient funds to meet its foreseeable obligations by actively monitoring its credit facilities through use of the revolving loan and operating loan, coordinating payment and revenue cycles each month, and an active hedge program to mitigate commodity price risk and secure cash flows. Management has delayed certain capital projects until the oil and natural gas commodity pricing environment improves and has and continues to work on strategies to reduce general and administrative and operating costs. The Company's credit facility is a demand loan and as such the bank could demand repayment at any time. Management is not aware of any indications that the bank would demand repayment in the next 12 months. Indicators considered include whether or not the Company has had any breach or default of bank covenants during the year and the recent credit facility review in November 2015.

*(in thousands of Canadian dollars, unless otherwise noted)*

The Company's financial liabilities, excluding derivatives, on the statement of financial position consist of accounts payable and accrued liabilities and bank debt. As at December 31, 2015, the Company had $6.8 million available under its facility for general corporate use or acquisition or development of proved oil and natural gas interests.

At December 31, 2015 the Company was in compliance with the working capital ratio covenant. The working capital ratio was 2.7 to 1.0 (2014 – 2.0 to 1.0).

The following details the Company's financial liabilities excluding derivatives, all balances due under one year:

| | **December 31, 2015 ($)** | December 31, 2014 ($) |
|---|---|---|
| Bank debt | **52,415** | 58,765 |
| Accounts payable and accrued liabilities | **5,352** | 15,598 |
| | **57,767** | 74,363 |

(c) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates, and foreign exchange rates will affect the Company's profit or loss, or the value of financial instruments. The Company actively monitors changes in market conditions manages those risks accordingly. The objective of the Company is to manage and mitigate market risk exposure within acceptable limits while maximizing returns.

*Foreign currency exchange risk*

Foreign currency exchange risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollars.

*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 is exposed to interest rate fluctuations on its credit facility, which bears a floating rate of interest. A 1% change in the interest rate on the bank debt would have a $0.6 million impact on net loss for the year ended December 31, 2015 (2014 - $0.6 million).

*Commodity price risk*

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for oil and natural gas are impacted by global economic events that dictate the levels of supply and demand.

It is the Company's policy to economically hedge some oil and natural gas sales through the use of various financial derivatives, forward sales contracts and physical sales contracts. The Company does not apply hedge accounting for these contracts. The Company's production is normally sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long term, fixed price marketing contracts. The Company does not enter into commodity price contracts other than to meet the Company's expected sale requirements.

All financial commodity price contracts are recorded on the balance sheet at fair value with any changes in fair value recorded as a gain or loss in the statement of operations. The fair value of commodity price contracts is determined by discounting the difference between the contracted prices and level two published forward price curves as at the balance sheet date, using the remaining contracted oil and natural gas volumes and a riskfree interest rate (based on published government rates). At December 31, 2015, the Company held financial commodity price contracts as follows:

| Product | Type | Notional Volumes | $Cdn Price | Index | Term | Fair value ($000) |
|---|---|---|---|---|---|---|
| Crude oil | Swap | 250 bbl/day | $76.87/bbl | WTI-NYMEX | Jan.01,2016 to Mar.31,2016 | 536 |
| Crude oil | Swap | 900 bbl/day | $58.30/bbl | WTI-NYMEX | Jan.01, 2016 to Mar.31,2016 | 419 |
| Crude oil | Swap | 850 bbl/day | $60.88/bbl | WTI-NYMEX | Apr.01, 2016 to Jun.30,2016 | 334 |
| Gas | Swap | 3000 GJ/day | $2.92/GJ | AECO-fixed | Jan.01,2016 to Mar.31,2016 | 166 |
| Gas | Swap | 3000 GJ/day | $2.96/GJ | AECO-fixed | Jan.01,2016 to Mar.31,2016 | 178 |
| | | | | | | 1,633 |

At December 31, 2015, the commodity contracts had a fair value of $1.6 million (2014 – $6.1 million) and an annual unrealized loss of $4.4 million (2014 - $7.0 million gain). For the year ended December 31, 2015, a $1.00bbl/$0.10GJ change in commodity prices would have an impact on net loss of $0.2 million (2014 - $0.2 million).

Subsequent to yearend the Company entered into the following crude oil commodity price contracts:

| Product | Type | Notional Volumes | $Cdn Price | Index | Term |
|---|---|---|---|---|---|
| Crude oil | Swap | 250 bbl/day | $49.60/bbl | WTI-NYMEX | Apr.01, 2016 to Jun.30,2016 |
| Crude oil | Swap | 300 bbl/day | $52.40/bbl | WTI-NYMEX | Jul.01,2016 to Sep.30,2016 |
| Crude oil | Swap | 200 bbl/day | $55.83/bbl | WTI-NYMEX | Jul.01,2016 to Sep.30,2016 |
| Crude oil | Swap | 200 bbl/day | $54.15/bbl | WTI-NYMEX | Oct.01,2016 to Dec.31,2016 |
| Crude oil | Swap | 100 bbl/day | $57.21/bbl | WTI-NYMEX | Oct.01,2016 to Dec.31,2016 |

(d) Capital management

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

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

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

The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of property transactions, commodity prices and on the mix of exploratory and development drilling. There have been no changes to the Company's capital management policies for the year ended December 31, 2015.

*Net debt to funds flow*

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

| ($000s, except ratios) | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Current assets (excluding commodity contracts) | **7,488** | 11,233 |
| Accounts payable and accrued liabilities | **(5,352)** | (15,598) |
| Bank debt | **(52,415)** | (58,765) |
| Net debt | **(50,279)** | (63,130) |

| ($000s, except ratios) | **Year ended December 31, 2015** | Year ended December 31, 2014 |
|---|---|---|
| Annualized fourth quarter funds flow from operations | **9,884** | 43,320 |
| Net debt to annualized fourth quarter funds flow from operations | **5.1** | 1.5 |
| Annual funds flow from operations | **18,402** | 37,312 |
| Net debt to annual funds flow from operations | **2.7** | 1.7 |

As at December 31, 2015, the Company's ratio of net debt to annualized fourth quarter funds flow from operations was 5.1 to 1 (December 31, 2014 – 1.5 to 1). As at December 31, 2015, the Company's ratio of net debt to annual funds flow from operations was 2.7 to 1 (December 31, 2014 – 1.7 to 1). The increase in the ratio at December 31, 2015 was a result of a decrease in funds flow from operating activities caused by the decline in benchmark and realized commodity prices in the period, offset by a lower outstanding bank debt which was repaid with proceeds from the PVR arrangement and the sale of non-core petroleum and natural gas properties, less capital expenditures and acquisitions.

The Company's share capital is not subject to external restrictions but the amount of the bank facility is determined by the lenders and based on the lenders' borrowing base models which are based on independent valuation of the Company's oil and gas reserves. The credit facility is also subject to certain financial and other covenants as described in note 9.

*Working capital ratio*

Under the credit facility (note 9), the Company is required to maintain a working capital ratio of greater than 1:1 defined as the ratio of current assets (including undrawn available credit on the revolving portion of the facility and excluding the fair value of the commodity contracts) divided by current liabilities (less the current portion of bank debt and the fair value of the commodity contracts). The working capital covenant at December 31, 2015 was 2.7 to 1.0 (2014 – 2.0 to 1.0). The working capital ratio increased at December 31, 2015 primarily due to the decrease in net debt caused by the decline in commodity prices, offset by the decrease in the undrawn availability under the credit facility.