marquee

ENERGY LTD.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying financial statements of Marquee Energy Ltd. were prepared by and are the responsibility of management. They have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain assessments that reflect management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. The financial information contained elsewhere in Management's Discussion and Analysis has been reviewed to ensure consistency with the financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's financial records, that procedures and policies are adhered to, that the financial statements realistically report the Company's operating and financial results, and that assets are safeguarded from unauthorized use.

KPMG LLP, an independent firm of chartered professional accountants, has been engaged to examine the financial statements in accordance with Canadian generally accepted auditing standards and to provide an independent auditors' report thereon.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with management and KPMG LLP. The Audit Committee is composed of three unrelated and independent members of the Board of Directors and meets quarterly with the financial officers of the Company. KPMG LLP has access to the Audit Committee to review the planning and scope of testing and to discuss the results of their audit work. On the recommendation of the Audit Committee, the accompanying financial statements have been approved by the Board of Directors.

(signed)
Dr. William Roach
Interim Chief Executive Officer

(signed)
Howard Bolinger
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Marquee Energy Ltd.

We have audited the accompanying financial statements of Marquee Energy Ltd., which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, the statements of operations, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 audits 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, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed)

KPMG LLP
Chartered Professional Accountants

April 12, 2018
Calgary, Canada

marquee
ENERGY LTD.

STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian dollars)

As at	Note	**December 31, 2017**	December 31, 2016
Assets			
Current Assets			
Cash		**$1,922**	$-
Accounts receivable	6	**4,121**	5,540
Prepaid and other expenses		**2,722**	584
Total current assets		**8,765**	6,124
Exploration and evaluation assets	7	**11,425**	11,209
Property, plant and equipment	8	**143,779**	151,829
Total assets		**$163,969**	$169,162
Liabilities			
Current Liabilities			
Bank debt	9	**$-**	$15,626
Commodity price contracts	19	**834**	-
Accounts payable and accrued liabilities		**10,363**	7,663
Total current liabilities		**11,197**	23,289
Term loan	10	**27,040**	-
Decommissioning liabilities	11	**54,475**	54,962
Flow through share premium	13	**-**	497
Total liabilities		**92,712**	78,748
Shareholders' Equity			
Share capital	13	**212,484**	212,499
Warrants	13	**1,341**	-
Contributed surplus		**13,721**	12,609
Deficit		**(156,289)**	(134,694)
Total shareholders' equity		**71,257**	90,414
Total liabilities and shareholders' equity		**$163,969**	$169,162
Commitments	18		

See accompanying notes to the financial statements

Approved on behalf of the Board:

(signed) “William Roach”
Director

(signed) “Robert Waters”
Director

STATEMENTS OF OPERATIONS

(thousands of Canadian dollars, except per share amounts)

	Note	Years ended December 31, **2017**	2016
Revenue			
Oil and natural gas sales		**$32,048**	$31,538
Royalties		**(1,951)**	(2,443)
Revenue, net of royalties		**30,097**	29,095
Realized gain on commodity price contracts	19	**1,290**	1,737
Unrealized loss on commodity price contracts	19	**(834)**	(1,633)
Net revenue before expenses		**30,553**	29,199
Expenses			
Production and operating		**15,749**	20,034
Transportation		**1,093**	1,536
General and administrative		**5,206**	4,918
Finance	15	**3,724**	4,371
Transaction costs	5	**149**	3,491
Gain on disposition of PP&E	8	**-**	(8,727)
Share-based compensation	14	**875**	519
Depletion, depreciation and impairment	8	**26,105**	22,989
Exploration and evaluation	7	**239**	2,874
Total expenses		**53,140**	52,005
Loss before income taxes		**(22,587)**	(22,806)
Deferred income tax recovery	12	**992**	621
Net loss and comprehensive loss		**$(21,595)**	$(22,185)
Net loss per share			
Basic and diluted	13	**$(0.05)**	$(0.10)

See accompanying notes to the financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Canadian dollars)

	Note	Share Capital	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance at December 31, 2015	13	$180,436	$-	$11,894	$(112,509)	$79,821
Shares issued on reverse acquisition	13	29,909	-	-	-	29,909
Issued for cash	13	2,814	-	-	-	2,814
Issued for consideration	13	110	-	-	-	110
Share issue costs	13	(274)	-	-	-	(274)
Flow-through share premium	13	(496)	-	-	-	(496)
Share-based compensation	13	-	-	715	-	715
Net loss for the year		-	-	-	(22,185)	(22,185)
Balance at December 31, 2016		**$212,499**	**$-**	**$12,609**	**$(134,694)**	**$90,414**
Share issue costs	13	$(15)	**$-**	$-	$-	$(15)
Warrants issued (net of deferred tax)	13	-	1,341	-	-	1,341
Share-based compensation	14	-	**-**	1,112	-	1,112
Net loss for the year		-	**-**	-	(21,595)	(21,595)
Balance at December 31, 2017		**$212,484**	**$1,341**	**$13,721**	**$(156,289)**	**$71,257**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

		Years ended December 31,	
	Note	**2017**	2016
Cash flows from (used in)			
Operating activities			
Net loss for the year		**$(21,595)**	$(22,185)
Adjustments for:			
Depletion, depreciation and impairment	8	**26,105**	22,989
Share-based compensation	14	**875**	519
Unrealized loss on commodity contracts	19	**834**	1,633
Gain on disposition of oil and natural gas interests	8	**-**	(8,727)
Accretion of decommissioning liabilities	11	**1,103**	1,088
Exploration and evaluation	7	**239**	2,874
Deferred income tax recovery	12	**(992)**	(621)
Shares issued for consideration	13	**-**	110
Amortization of debt issuance costs	10, 15	**263**	-
Decommissioning expenditures	11	**(878)**	(745)
Changes in non-cash working capital	16	**(4,298)**	3,827
		1,656	762
Investing activities			
Exploration and evaluation asset expenditures	7	**(455)**	(356)
Property, plant and equipment expenditures	8	**(18,530)**	(1,385)
Proceeds on disposition of property, plant and equipment	8	**-**	5,127
Changes in non-cash working capital	16	**6,279**	473
		(12,706)	3,859
Financing activities			
Repayment of bank debt	9	**(15,626)**	(36,789)
Proceeds from issue of share capital	13	**-**	2,814
Proceeds from term loan, net of issue costs	10	**28,613**	29,628
Share issue costs	13	**(15)**	(274)
		12,972	(4,621)
Change in cash		**1,922**	-
Cash, beginning of year		**-**	-
Cash, end of year		**$1,922**	$ -

See accompanying notes to the financial statements

1. GENERAL BUSINESS DESCRIPTION

Marquee Energy Ltd. (“Marquee” or the “Company”) is an oil and gas company focused on the acquisition, exploration, development and production of oil and natural gas primarily in Alberta. The Company’s operations are primarily in Alberta within the Western Canadian Sedimentary Basin. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “MQX.V”, and on the United States OTC Market (“OTCQX”) under the symbol “MQXDF”. The head office of the Company is located at Suite 1700, 500 – 4th Avenue SW, Calgary, Alberta, Canada, T2P 2V6.

Additional information about Marquee may be found on www.sedar.com or on it’s website at www.marquee-energy.com.

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. The financial statements were authorized for issue by the Board of Directors on April 12, 2018.

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.

(vi) *Business combinations*
The acquisition method of accounting for business acquisitions requires that identifiable assets and liabilities be measured at fair value. Judgement is required in selecting key assumptions in these measurements.

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 acquisitions 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 assets 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 in earnings. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain on acquisition in the statement of operations. Associated transaction costs are expensed when incurred.

b) Jointly owned assets

Many of the Company's oil and natural gas activities involve jointly owned assets and are conducted under joint operating agreements. The financial statements include the Company's share of these jointly owned 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 earnings.

(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 earnings 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 earnings.

(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 earnings.

For the purposes of assessing impairments, exploration and evaluation assets and property, plant and equipment 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 to earnings.

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 earnings, 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 per share is calculated by adjusting the net income 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 to earnings as it accrues, 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 cash and accounts receivable as "loans and receivables" and bank debt, the term loan 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 earnings. The fair values 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) 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. 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:

i) Level 1: Values based on the unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
ii) 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.
iii) Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

n) *Cash, Accounts receivable, accounts payable and accrued liabilities, bank debt and term loan*

The fair value of cash, accounts receivables, accounts payable and accrued liabilities, bank debt and the term loan are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2017 and 2016, the fair value of cash, accounts receivables and 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. The carrying value of the term loan reflected fair value as it was only recently issued and the fixed interest is consistent with current interest rates.

o) *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.

4. FUTURE ACCOUNTING POLICY CHANGES

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures.

In July 2014, the IASB issued IFRS 9, "Financial Instruments" ("IFRS 9") which is intended to replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 is effective for years beginning on or after January 1, 2018. The Company has evaluated the impact of adopting IFRS 9 on the financial statements and will adopt the new standard using the modified retrospective method effective January 1, 2018. The new standard will result in a change of accounting policy for impairment of trade and other receivables using an expected credit loss model as compared to incurred loss model required by IAS 39. The Company will apply the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. The effect of this change in accounting policy will not have a material impact on the Company's financial statements.

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") to replace IAS 11, "Construction Contracts", IAS 18, "Revenue" and a number of revenue-related interpretations. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard is required to be adopted either retrospectively or using a modified retrospective approach for years beginning on or after January 1, 2018. The Company has evaluated the impact of adopting IFRS 15 on the financial statements and it will not have a material impact on net income. The Company will be required to provide enhanced disclosures relating to the disaggregation of revenues from contracts with customers, the Company's performance obligations and any significant judgements.

In January 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16") to replace IAS 17, "Leases." Under IFRS 16, a single recognition and measurement model will apply for lessees, which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently identifying, gathering and analyzing contracts impacted by the adoption of the new standard, as well as evaluating the system requirements for implementation. The Company is continuing to evaluate the impact of adopting IFRS 16 on the Company's financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

5. REVERSE TAKEOVER - ACQUISITION OF ALBERTA OIL SANDS INC. ("AOS")

Under the terms of the arrangement agreement, AOS acquired on December 6, 2016, all of the issued and outstanding shares of Marquee. As consideration, the shareholders of Marquee received 1.67 common shares of AOS for each common share of Marquee held, resulting in the issuance of 205,686,639 shares of AOS.

The acquisition of Marquee by AOS has been accounted for using the reverse-takeover ("RTO") method of acquisition accounting in accordance with IFRS 3. Marquee is deemed to be the acquirer or the accounting parent as if Marquee had purchased the assets and liabilities of AOS. As Marquee is the continuing operation and the management of Marquee is the management going forward, it is considered to be a reverse takeover. The former shareholders of AOS, became owners of 51% of the voting shares of Marquee after the transaction. The accounting information and results of the legal parent AOS have been included in these financial statements from the date of the reverse takeover, December 6, 2016. For accounting purposes, the Company is considered to be a continuation of Marquee, except with regards to the authorized and issued share capital which is that of the legal parent, AOS. Transaction costs of $3.2 million, relating to the acquisition were recorded in earnings for the year ended December 31, 2016.

The following summarizes the fair value of the AOS assets acquired and liabilities assumed at December 6, 2016:

Net assets acquired:	
Cash	$29,628
Accounts receivable	240
Income tax receivable	438
Exploration and evaluation assets	100
Accounts payable	(51)
Share awards	(160)
Decommissioning liabilities	(286)
	29,909
Consideration paid:	
Common shares of AOS (205,686,639 shares)	$29,909

The share consideration was value based on the net assets received, which approximated the market price of the Marquee shares.

6. ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Oil and natural gas marketing companies	**$3,204**	$2,804
Joint interest partners and other	**740**	2,090
Government agencies	**177**	646
Total	**$4,121**	$5,540

7. EXPLORATION AND EVALUATION ASSETS

Balance, December 31, 2015	$14,600
Capital expenditures	356
E&E Assets from AOS	100
Transfers to property, plant and equipment (note 8)	(1,045)
Exploration and evaluation costs expensed	(1,174)
Dispositions of exploration and evaluation assets	(1,628)
Balance, December 31, 2016	11,209
Capital expenditures	455
Exploration and evaluation costs expensed	(239)
Balance December 31, 2017	**$11,425**

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, 2017, the Company expensed $0.2 million (2016 - $1.2 million) of certain costs due to undeveloped land expiries and areas the Company does not intend to pursue further in an exploration capacity.

8. PROPERTY, PLANT AND EQUIPMENT

Cost	**Oil and natural gas interests**	**Corporate assets**	**Total**
Balance, December 31, 2015	**$329,621**	$736	$330,357
Capital expenditures	1,303	82	1,385
Dispositions	(53,356)	-	(53,356)
Transfers from exploration and evaluation assets (note 7)	1,045	-	1,045
Change in decommissioning liabilities (note 11)	(3,949)	-	(3,949)
Balance, December 31, 2016	**274,664**	**818**	**275,482**
Capital expenditures	18,767	-	18,767
Change in decommissioning liabilities (note 11)	(712)	-	(712)
Balance, December 31, 2017	**292,719**	**818**	**293,537**
Accumulated depletion and depreciation and impairments			
Balance, December 31, 2015	**(125,658)**	(479)	(126,137)
Depletion and depreciation expense	(22,729)	(261)	(22,990)
Dispositions	25,474	-	25,474
Balance, December 31, 2016	**(122,913)**	**(740)**	**(123,653)**
Depletion and depreciation expense	(17,858)	(62)	(17,920)
Impairment	(8,185)		(8,185)
Balance, December 31, 2017	**(148,956)**	**(802)**	**(149,758)**
Net carrying value			
At December 31, 2016	151,750	79	151,829
At December 31, 2017	**$143,763**	**$16**	**$143,779**

The calculation of depletion and depreciation included estimated future development costs of $215.1 million (December 31, 2016- $147.1 million) associated with the development of the Company's proved plus probable crude oil and natural gas reserves. $0.8 million was included for 2017 (2016 - $0.5 million) relating to capitalized G&A and capitalized stock based compensation expense.

On May 31, 2016, the Company disposed of non-core shallow-gas assets for net proceeds of $5.0 million with a net book value of $18.1 million and an associated decommissioning liability of $26.7 million. A $13.4 million gain was recognized in earnings.

On June 6, 2016, the Company disposed of it's heavy oil Lloydminster assets for net proceeds of $0.1 million with a net book value of $9.6 million and an associated decommissioning liability of $4.8 million. A $4.7 million loss was recognized in earnings.

The forecast prices used to determine fair value as at December 31, 2017 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
2018	55.00	51.05	2.85	0.79
2019	65.00	59.61	3.11	0.82
2020	70.00	64.94	3.65	0.85
2021	73.00	68.43	3.80	0.85
2022	74.46	69.80	3.95	0.85
2023	75.95	71.20	4.05	0.85
2024	77.47	72.62	4.15	0.85
2025	79.02	74.07	4.25	0.85
2026	80.60	75.55	4.36	0.85
2027	82.21	77.06	4.46	0.85
2028	83.85	78.61	4.57	0.85
Remainder	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.85 thereafter

At December 31, 2017, the Company determined there to be indicators of impairment primarily due to the prolonged decline in the price of natural gas. Consequently, the Company recognized an impairment charge of $8.2 million on its PP&E assets related to its non-core CGU due to the carrying values in the non-core CGU exceeding the recoverable amounts (fair value less less costs to sell). After impairment, the recoverable amount of the non-core CGU was $nil as there were no recoverable reserves in the CGU.

9. BANK DEBT

The Company obtained a new senior demand revolving credit facility ("Facility") with a Canadian Bank ("Bank") on May 30, 2017 for $12 million, however draws are capped at $8.5 million with special approval required to access the remaining $3.5 million. The Facility can be used for general corporate purposes and capital expenditures, and bear interest at either the Bank's prime rate plus an applicable margin (of 75 bps to 275 bps) or, Bankers' Acceptance ("BA") rates plus an additional margin (of 200 bps to 400 bps) both determined quarterly, in accordance with net debt to trailing EBITDA ratio.

At December 31, 2017, the Company has not drawn on the facility, however, the Company has two letters of guarantee outstanding for $0.7 million which reduce the amount available under the facility.

The Company is required to maintain the following covenants at the end of each fiscal quarter which includes certain covenants of its Term Loan (note 10):

- Adjusted Working Capital Ratio, of not less than 1:1 (As at December 31, 2017, the Company is at 1.9:1);
- Net Bank Debt to Trailing EBITDA Ratio not to exceed 3:1 (As at December 31, 2017, the Company is at 2.6:1); and
- Alberta Energy Regulator Rating Liability Management Rating (LMR) of not less than 1.25:1 (As at December 31, 2017 the Company is at 1.43.

At December 31, 2017, the Company was in compliance with all covenants.

For the purposes of compliance with the Adjusted Working Capital Ratio, the current portion of bank debt and the fair value of any commodity contracts are excluded and the unused portion of the Facility is added to working capital.

Net Bank Debt includes drawings on the Facility (includes letters of credit) and the Term loan less cash on hand. EBITDA is defined by the credit agreement as earnings before interest, taxes, depreciation and amortization, and impairment, unrealized gains or losses on financial instruments, share-based compensation, all other non-cash items and extraordinary, unusual or non-recurring items. For the quarter ended June 30, 2017 Trailing EBITDA is annualized by multiplying Q2 2017 by four; for the fiscal quarter ended September 30, 2017 Trailing EBITDA is annualized by multiplying Q2 and Q3 2017 by 2; for the quarter ended December 31, 2017 Trailing EBITDA is annualized by multiplying Q2, Q3 and Q4 2017 by 4/3 and for the quarter ended March 31, 2018 and thereafter, the Trailing EBITDA is for the past for twelve months.

The next semi-annual review is scheduled for May 31, 2018. The facility is secured by a first floating charge debenture of $25 million over the Company's assets. The various covenants in the Facility and Term Loan restricts the Company's ability to access the full $12 million on the Facility. As the available lending limits are based on the lender's interpretation of the Company's reserves and future commodity prices, there can be no assurance as to the amount of available credit that will be determined at each schedule review.

10. TERM LOAN

The Company obtained a term loan for $30.0 million, which included the issuance of 37.5 million warrants to purchase common shares on May 30, 2017.

	December 31, 2017
Principal amount of Term Loan issued	$30,000
Value allocated to warrants	(1,836)
Issue costs	(1,387)
Amortization of issue costs	263
Balance, end of year	$27,040

The Term Loan matures on May 30, 2022, and bears interest at 10% per annum with interest payments due quarterly beginning June 30, 2017. The effective interest rate is 12.9%. The Term Loan contains certain restrictions that limit the Company's ability to incur additional indebtedness of more than $15 million in senior credit facility, and dispose of certain assets.

The principal amount is due upon maturity of the loan. Amounts borrowed under the Term Loan that are repaid are not available for re-borrowing. The Company may not repay the Term Loan prior to the second anniversary thereof. The loan is subject to a prepayment fee of 3%, 2% or 1% if repayments are made during the third, fourth or fifth year. The Term Loan is secured by a general security agreement over all of the present and future property of the Company on a second priority basis, subordinate only to liens securing loans under the Credit Facility.

The Term Loan is subject to financial covenants that require Marquee maintain:

- Adjusted working capital ratio of not less than 1:1 (As at December 31, 2017, the Company is at 1.9:1);
- Net Bank Debt to Trailing EBITDA Ratio not to exceed 3:1 (As at December 31, 2017, the Company is at 2.6:1);
- Net Bank Debt to Total Proved Develop Producing Reserves (discounted at 10%) Ratio not to exceed 1:1 (As at December 31, 2017, the Company is at 0.5:1);
- Net Bank Debt to Total Proved Reserves Ratio (discounted at 10%) not to exceed 0.6:1 (As at December 31, 2017, the Company is at 0.2:1);and
- Alberta Energy Regulator Rating Liability Management Rating (LMR) of not less than 1.25:1 (As at December 31, 2017 the Company is at 1.43.

The Company was in compliance with all financial covenants at December 31, 2017.

11. 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, 2017, the total undiscounted cash flows required to settle the liabilities is approximately $56.8 million (December 31, 2016- $57.7 million). The estimated net present value of the decommissioning liabilities was calculated using a risk-free rate of approximately 2% at December 31, 2017 (2016 - 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, 2016 - 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 2049.

The following table summarizes changes in the decommissioning liabilities:

	December 31, 2017	December 31, 2016
Decommissioning liabilities, beginning of year	**$54,962**	$89,732
New liabilities recognized	**615**	-
Change in estimates [1]	**(1,327)**	(3,949)
Liabilities assumed on acquisitions (note 5 and 8)	**-**	286
Liabilities settled on dispositions (note 8)	**-**	(31,450)
Actual costs incurred	**(878)**	(745)
Accretion	**1,103**	1,088
Decommissioning liabilities, end of year	**$54,475**	$54,962

[1] Change in estimate is due to the change of interest rate

12. INCOME TAXES

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, 2017	December 31, 2016
Loss before income taxes	**$(22,587)**	$(22,806)
Combined federal and provincial tax rate	**27%**	27%
Expected income tax recovery	**(6,098)**	(6,158)
Share-based compensation and other non-deductible expenses	**240**	144
Flow-through shares	**760**	458
Change in statutory tax rates and other	**323**	(28)
Change in unrecognized deferred tax asset	**4,280**	5,583
Sub-total	**(495)**	-
Flow through share premium	**(497)**	(621)
Total income tax expense (recovery)	**$(992)**	$(621)

At December 31, 2017, a deferred tax asset of $nil (2016 - $nil) has been recognized in the financial statements. The components of the deferred tax asset are as follows:

	December 31, 2017	December 31, 2016
Deferred tax liabilities		
E&E and PPE assets	**$(7,949)**	$(8,264)
Term loan	**(495)**	-
Deferred tax assets		
Decommissioning liabilities	**8,063**	7,998
Commodity price contracts	**225**	-
Share issue costs and other	**156**	266
Net deferred tax asset (liability)	**$-**	$-

	December 31, 2017	December 31, 2016
Temporary differences associated with unrecognized deferred tax assets:		
Non-capital losses [1]	**$109,249**	$92,638
Decommissioning liabilities	**24,612**	25,341
	$133,861	$117,979

[1] Expires between 2023-2037

The movement in deferred tax assets (liabilities) were as follows:

	December 31, 2016	Deferred tax (expense)/recovery	Deferred tax in equity	Flow-through shares	**December 31, 2017**
E&E and PP&E assets	(8,264)	812	-	(497)	**(7,949)**
Decommissioning liabilities	7,998	65	-	-	**8,063**
Term loan	-	-	(495)	-	**(495)**
Non-capital losses	-	-	-	-	**-**
Commodity price contracts	-	225	-	-	**225**
Share issue costs and other	266	(110)	-	-	**156**
	-	**992**	**(495)**	**(497)**	**-**

	December 31, 2015	Deferred tax (expense)/recovery	Deferred tax in equity	Flow-through shares	December 31, 2016
E&E and PP&E assets	(18,747)	11,104	-	(621)	(8,264)
Decommissioning liabilities	18,691	(10,693)	-	-	7,998
Term loan	-	-	-	-	-
Non-capital losses	-	-	-	-	-
Commodity price contracts	(441)	441	-	-	-
Share issue costs and other	497	(231)	-	-	266
	-	621	-	(621)	-

13. 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, 2015	123,166	$180,436
Shares exchanged on closing	(123,166)	-
Existing AOS shares	212,532	-
Shares issued upon reverse takeover of AOS	205,687	29,909
Shares issued to Smoothwater	1,000	110
Flow-through common shares issued for cash	16,553	2,814
Flow-through share premium	-	(496)
Share issue costs	-	(274)
Outstanding, December 31, 2016	435,772	212,499
Share issue costs	-	(15)
Outstanding, December 31, 2017	**435,772**	**$212,484**

(c) Warrants

The Company issued 37.5 million warrants in connection with the Term Loan (note 10). Each warrant entitles the holder to acquire common shares on a one for one basis at an exercise price of $0.11 per share prior to May 30, 2021. The Company ascribed a value to the warrants of $1.8 million by comparing the fair value of the Term Loan both with and without the warrant feature determining the difference in value to be related to the warrants. A deferred tax recovery of $0.5 million was incurred with regard to the warrants.

d) Per Share Amounts

Basic and diluted per share amounts have been calculated based on the following amounts:

	Years ended December 31,	
	2017	2016
(000s, except share and per share amounts)		
Net loss for the year	**$(21,595)**	$(22,185)
Weighted-average number of common shares		
Basic and diluted	**435,772,196**	226,779,380
Net loss per weighted average common share	**$(0.05)**	$(0.10)

For the year ended December 31, 2017 and 2016, all options and warrants have been excluded from the calculation of diluted loss per share as they would have been anti-dilutive due to the net loss.

14. 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, 2015	7,890	$1.06
Forfeited and/or cancelled	(7,890)	1.06
AOS options acquired	11,700	0.12
Outstanding, December 31, 2016	11,700	0.12
Forfeited and/or cancelled	(17,250)	(0.12)
Issued	30,270	0.10
Outstanding, December 31, 2017	**24,720**	0.09
Exercisable, December 31, 2017	**-**	$-

The following table summarizes the expiry terms and exercise prices of the Company's outstanding stock options as at December 31, 2017:

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 ($)
$0.065	17,130	4.85	$0.065	-	-	-
$0.15	7,590	4.00	0.15	-	-	-
	24,720	4.56	0.09	-	-	-

b) Stock-based compensation expense

Compensation costs relating to stock options of $0.9 million for the year ended December 31, 2017 (2016 - $0.5 million) have been expensed and $0.2 million (2016- $0.04 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, 2017	December 31, 2016
Risk-free interest rate	**1%**	1%
Expected volatility	**98%**	87%
Expected life	**4 years**	1 year
Expected dividend yield	**N/A**	N/A
Estimated forfeiture rate	**10%**	10%
Fair value per option	**$0.07**	$0.18
Stock price on grant date	**$0.10**	$0.12

15. FINANCE EXPENSE

	Year ended December 31, 2017	Year ended December 31, 2016
Accretion of decommissioning liabilities	**$1,103**	$1,088
Interest on bank debt	**2,358**	2,966
Amortization of debt issue costs	**263**	-
Bad debt expense	**-**	317
	$3,724	$4,371

16. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2017	Year ended December 31, 2016
Source/(use) of cash:		
Accounts receivable	**$1,419**	$602
Prepaid and other expenses	**(2,138)**	760
Accounts payable and accrued liabilities	**2,700**	2,311
Working capital acquired in acquisition	**-**	627
Changes in non-cash working capital	**1,981**	4,300
Related to operating activities	**(4,298)**	3,827
Related to investing activities	**6,279**	473
Changes in non-cash working capital	**$1,981**	$4,300

The following are included in cash flows from operating activities:

	Year ended December 31, 2017	Year ended December 31, 2016
Interest paid in cash	**$2,358**	$2,964

17. 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, 2017	Year ended December 31, 2016
Remuneration, short-term benefits and directors fees	**$1,933**	$1,652
Share-based compensation	**249**	204
	$2,182	$1,856

18. COMMITMENTS

(thousands of Canadian dollars)	2018	2019	2020	2021	Remainder	Total
Office lease	$236	$339	$339	$-	$-	$914
Processing	2,300	2,300	2,300	2,300	2,619	11,819
Term Loan	3,000	3,000	3,000	3,000	31,233	43,233
	$5,536	$5,639	$5,639	$5,300	$33,852	$55,966

The Company has lease commitments for office premises that expire in 2020.

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.

19. 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, 2017.

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.

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 2017 and 2016, 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.

The Company's accounts receivable are aged as follows:

	December 31, 2017	December 31, 2016
Current (less than 90 days)	**$3,747**	$4,777
Past due (more than 90 days)	**374**	763
	$4,121	$5,540

The carrying amount of $4.1 million of accounts receivable, net of provision for bad debts of $0.1 million, represents the maximum credit exposure and management believes all remaining receivables will be collected.

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 plans to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows, bank debt, term loan and alternative debt facilities and equity. See note 9 and 10 for credit facility disclosure. The Company is required to meet certain financial commitments as described in note 9 and 10. The Company believes it will have sufficient funds to meet its foreseeable obligations by actively monitoring its credit facilities through use of the revolving loan, term 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 commitment loan and as such the bank could demand repayment when it expires or at any time. The available lending limits of the facilities are based on the bank's interpretation of the Company's reserves and future commodity prices. If the credit facility availability is decreased, the Company has up to 60 days to repay any shortfall. The current credit facility agreement ends on May 31, 2018.

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, 2017, the Company had a credit facility of $12 million, however draws are capped at $8.5 million with special approval required from the lender to access the remaining $3.5 million. The Company's credit facility remains undrawn at December 31, 2017 except for letter of credits totalling $0.7 million.

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.

d) 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.

e) 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 $0.3 million impact on net loss for the year ended December 31, 2017 (2016 - $0.5 million). The term loan has fixed interest rate and therefore no exposure.

f) 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 risk-free interest rate (based on published government rates).

At December 31, 2017, the commodity contracts had a fair value of unrealized loss of $0.8 million (2016 - nil).

Type of Instrument	**Notional Volumes**	**Price**	**Index**	**Term**	**Fair Value**
Crude Oil Collar	400 bbl/day	US$40.00 - $56.25/bbl	WTI-Fixed	October 1, 2017 to June 30, 2018	$(464)
Crude Oil Put	400 bbl/day	US$45.00 Strike, $4.95 Premium	WTI-Fixed	July 1, 2018 to June 30, 2019	(646)
Natural Gas Swap	3,000 GJ/day	Cdn$3.05/GJ	AECO-Fixed	January 1, 2018 to March 31 ,2018	304
Crude Oil Swap	150 bbl/day	Cdn$69.00/bbl	WTI-Fixed	January 1, 2018 to December 31, 2018	(294)
Crude Oil Swap	250 bbl/day	Cdn$70.52	WTI-Fixed	January 1, 2018 to December 31, 2018	(353)
Crude Oil Swap	150 bbl/day	Cdn$66.35	WTI-Fixed	January 1, 2019 to December 31, 2019	(192)
Natural Gas Collar	3,000 GJ/day	Cdn$2.00 to $2.53/GJ	AECO-Fixed	April 1, 2018 to September 30, 2018	399
Natural Gas Collar	3,000 GJ/day	Cdn$2.20 to $2.72/GJ	AECO-Fixed	October 1, 2018 to December 31, 2018	137
Natural Gas Collar	3,000 GJ/day	Cdn$2.40 to $2.92/GJ	AECO-Fixed	January 1, 2019 to March 31, 2019	142
Natural Gas Collar	3,000 GJ/day	Cdn$1.90 to $2.14/GJ	AECO-Fixed	April 1, 2019 to June 30, 2019	133
					$(834)

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

Product	**Type**	**Notional Volumes**	**Price**	**Index**	**Term**
Crude oil	Option	450 bbl/day	US$55.00/bbl Strike, $6.29 Premium	WTI-Fixed	Jul.01, 2019 to Dec. 31,2019
Natural Gas	Swap	3,000GJ/day	Cdn$3.15/GJ	NYMEX	Jul.01,2019 to Dec.31,2019

g) Capital management

The Company carefully monitors capital availability by tracking its current working capital and net debt, available credit facility, projected cash flow from operating activities and anticipated capital expenditures. Marquee 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, access alternative forms of debt and equity 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) Adjusted Working Capital Ratio and 2) Net Bank Debt to Trailing EBITDA Ratio.

The Company is required to maintain, under its Facility and Term Loan, a working capital ratio of greater than 1 to 1, defined as the ratio of current assets (including undrawn available credit on the Facility 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, 2017, the working capital ratio was 1.9 to 1.0 (December 31, 2016 – 1.9 to 1.0) and the Company was in compliance with the covenant. The following table summarizes the Company's bank adjusted working capital calculation as defined by its lending facility covenants.

	December 31, 2017	December 31, 2016
Current assets, excluding commodity price contracts	**$8,765**	$6,124
Undrawn available credit	**11,343**	13,674
Subtotal	**20,108**	19,798
Current liabilities, excluding bank debt and commodity price contracts	**$10,363**	$7,663
Bank adjusted working capital ratio	**1.9:1**	2.6:1

The Company is required to maintain, under its Facility and Term Loan, a Net Bank Debt to Trailing EBITDA Ratio not to exceed 3:1 (defined above under Bank Debt section). At December 31, 2017, the ratio was 2.8 to 1.0 and the Company was in compliance with the covenant.

The following table summarizes the Company's Net Bank Debt to Trailing EBITDA Ratio calculation as defined by its lending facility covenants, as at:

	December 31, 2017
Cash	**$1,922**
Term loan	**(30,000)**
Net Bank Debt	**(28,078)**
EBITDA	
Net income	**(17,927)**
Adjusted for:	
Deferred income tax recovery	**(992)**
Cash interest	**1,887**
Depletion and depreciation	**21,886**
Finance expense	**264**
Share based compensation	**756**
Accretion	**845**
Transaction costs	**11**
Exploration and evaluation expenditures	**180**
Unrealized gain (loss) on hedging	**573**
Non-recurring items [3]	**524**
EBITDA[1]	**8,007**
Annualized EBITDA[2]	**$10,676**
Net debt to trailing EBITDA ratio	**2.6:1**

[1] EBITDA for December 31, 2017, is the sum of (A) the EBITDA for the Fiscal Quarter ending June 30, 2017; (B) the EBITDA for the Fiscal Quarter ending September 30, 2017; and (C) the EBITDA for the Fiscal Quarter ending December 31, 2017.

[2] Annualized EBITDA for the Fiscal Quarter ending December 31, 2017, is the sum of (A) the EBITDA for the Fiscal Quarter ending June 30, 2017; (B) the EBITDA for the Fiscal Quarter ending September 30, 2017; and (C) the EBITDA for the Fiscal Quarter ending December 31, 2017, multiplied by four-thirds (4/3rds).

[3] As per the lending facility covenants, extraordinary, unusual or non-recurring items are permitted to be excluded from the EBITDA calculation.