MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Twelve Months Ended December 31, 2016
Date: April 28, 2017

OVERVIEW

Marquee is a junior oil and gas company engaged in the exploration, development and production of oil and natural gas in Western Canada, with a main focus on the Banff light oil play in Southern Alberta, where the Company has extensive infrastructure and land holdings. Marquee is dedicated to creating long-term value for its shareholders. The Company has assembled a significant future drilling inventory and will strive to extract the value associated with it.

CORPORATE UPDATE

In response to persistent low commodity prices throughout 2016, the Company reduced its capital budget and focused its efforts over the past year on improving its balance sheet and liquidity position in order to re-position the Company to resume development of its light oil asset at Michichi, Alberta.

During the second quarter of 2016, the Company disposed of non-core shallow gas assets and heavy oil assets for net proceeds of $5.1 million, reducing decommissioning liabilities by $31.5 million and eliminating future capital commitments of $22.3 million.

On December 6, 2016, Alberta Oilsands Inc. ("AOS") and Marquee Energy Ltd. ("Old Marquee"), completed a plan of arrangement pursuant to which AOS acquired all of the issued and outstanding shares of Old Marquee and Old Marquee became a wholly-owned subsidiary of AOS (the "**Arrangement**"). Immediately following the Arrangement, Old Marquee was amalgamated into AOS by way of short-form vertical amalgamation, to form the Company, which operates under the name of "Marquee Energy Ltd". The Company reports on SEDAR under the previous AOS profile. This transaction, in combination with the rationalization of non-core properties during 2016, reduced bank debt to $15.8 million at December 31, 2016 representing a reduction of $36.6 million from December 31, 2015.

Highlights of the Company's asset base include:

- Over 320 multi-zone horizontal development drilling locations at Michichi targeting the Banff reservoir have been identified through extensive 2D and 3D seismic, vertical well control (1,300 vertical wells) and offsetting horizontal wells drilled in the Michichi area;

- Costs to drill, complete, equip, and tie-in a new horizontal well have continued to decrease with current estimated expenditures of $1.7 million per well. Economics based on the April 25, 2017 strip price forecast indicates that new wells at Michichi are expected to payout in approximately 1.2 years and generate an internal rate of return of 76% with finding and development costs of approximately $9/boe; and

- Operatorship of two gas plants and an oil battery, as well as an extensive gathering system and field compression provide opportunities for timely tie-in of new production.

The Company's Board of Directors approved a capital program of approximately $7.0 million for the first half of 2017. Marquee remains focused on the management of its balance sheet and believes it is prudent to limit capital spending to

free corporate cash flow at this time. Details on guidance for 2017 and further capital plans for the year will be forthcoming.

The Company recently completed its Q1 2017 drilling program at Michichi with all three wells being placed on production in early April. The three wells continue to clean-up post completion, and over the last week have averaged 180 boe/d per well (based on field estimates). Marquee will provide further well performance updates as it becomes available.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31,		Year ended December 31,	
	2016	2015	**2016**	2015
Financial *(000's except per share and per boe amounts)*				
Oil and natural gas sales (1)	**$ 8,013**	$ 12,153	**$ 31,538**	$ 55,137
Funds flow from operations (2)	**$ (878)**	$ 2,471	**$ 1,169**	$ 18,402
Per share - basic and diluted	**$ -**	$ 0.01	**$ 0.01**	$ 0.09
Per boe	**$ (3.73)**	$ 5.45	**$ 0.95**	$ 9.95
Net income (loss)	**$ (10,063)**	$ (26,701)	**$ (22,185)**	$ (53,419)
Per share - basic and diluted	**$ (0.04)**	$ (0.13)	**$ (0.10)**	$ (0.27)
Capital expenditures	**$ 1,052**	$ 2,386	**$ 3,539**	$ 18,539
Acquisitions	**$ -**	$ -	**$ -**	$ 27,049
Dispositions (3)	**$ -**	$ -	**$ (5,127)**	$ (38,653)
Net debt (2)	**$ 17,165**	$ 50,277	**$ 17,165**	$ 50,277
Total Assets	**$ 169,162**	$ 227,941	**$ 169,162**	$ 227,941
Weighted average basic and diluted shares outstanding	**266,381,644**	201,430,457	**220,943,307**	201,085,271
Operational				
Net wells drilled	**-**	-	**-**	6
Daily sales volumes				
Oil (bbls per day)	**1,047**	1,691	**1,254**	1,646
Heavy Oil (bbls per day)	**-**	461	**162**	598
NGL's (bbls per day)	**172**	176	**142**	185
Natural Gas (mcf per day)	**8,034**	15,578	**10,824**	15,831
Total (boe per day)	**2,558**	4,924	**3,361**	5,068
% Oil and NGL's	**48%**	47%	**46%**	48%
Average realized prices				
Light Oil ($/bbl)	**$ 51.38**	$ 42.76	**$ 42.78**	$ 46.60
Heavy Oil ($/bbl)	**$ -**	$ 29.35	**$ 23.61**	$ 38.26
NGL's ($/bbl)	**$ 30.52**	$ 32.67	**$ 32.37**	$ 34.91
Natural Gas ($/mcf)	**$ 3.49**	$ 2.60	**$ 2.23**	$ 2.84
Netback				
Revenue ($/boe)	**$ 34.05**	$ 26.83	**$ 25.64**	$ 29.81
Royalties ($/boe)	**$ (1.64)**	$ (3.41)	**$ (1.99)**	$ (3.57)
Operating and transportation costs ($/boe)	**$ (24.29)**	$ (18.63)	**$ (17.54)**	$ (16.74)
Operating netback prior to hedging (2)	**$ 8.12**	$ 4.79	**$ 6.11**	$ 9.50
Realized hedging gain (loss) ($/boe)	**$ (1.25)**	$ 4.64	**$ 1.41**	$ 4.97
Operating netback ($/boe) (2)	**$ 6.87**	$ 9.43	**$ 7.52**	$ 14.47

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

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 months ended December 31, 2016. This MD&A is dated and based on information available to April 28, 2017 and should be read in conjunction with the Company's audited financial statements and related notes thereto for the three and twelve month periods ending December 31, 2016 and 2015.

On December 6, 2016, Marquee and AOS completed an Arrangement Agreement (the "Agreement") in which all of the issued and outstanding shares of Marquee were transferred to AOS, and each holder thereof was entitled to receive from AOS, the consideration comprised of each number of AOS shares as determined in accordance to the exchange ratio. The exchange ratio was 1.67 AOS shares for each Marquee share through which AOS shareholders became the majority shareholder of Marquee. The business combination was accounted for as a reverse takeover of AOS by Marquee, and has been accounted for using the reverse-takeover ("RTO") method of 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. Marquee being the continuing entity. The transaction resulted in the issuance of common shares such that the control of the combined companies passed to the shareholders of AOS. In conjunction with the transaction, the two companies amalgamated and continued under the name of Marquee Energy Ltd.

These financial statements represent the historical results of Marquee for the year ended December 31, 2016 and comparatives, combined with the results of operations of AOS since the date of the reverse acquisition. Per share amounts for all comparative periods have been restated to reflect the new share capital.

The Company's financial statements have been prepared in accordance with International Financial Standards ("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 "MQX-V", and on the United States OTC Market ("OTCQX") under the symbol "MQXDF".

DESCRIPTION OF BUSINESS

Marquee Energy Ltd. is a publicly traded, Calgary-based, oil and natural gas company focused on high rate of return oil development and production in the Michichi area of eastern Alberta.

RESULTS OF OPERATIONS

Average Daily Oil and Natural Gas Production and Sales Volume

	Three months ended December 31,			Year ended December 31,		
	2016	2015	Change	**2016**	2015	Change
Light oil (bbls/d)	**1,047**	1,691	-38%	**1,254**	1,646	-24%
Heavy oil (bbls/d)	**-**	461	-100%	**162**	598	-73%
NGLs (bbls/d)	**172**	176	-2%	**142**	185	-23%
Natural gas (mcf/d)	**8,034**	15,578	-48%	**10,824**	15,831	-32%
Total boe/d (6:1)	**2,558**	4,924	-48%	**3,361**	5,068	-34%
Production split (%)						
Crude oil and NGL	**48%**	47%	1%	**46%**	48%	-3%
Natural gas	**52%**	53%	-1%	**54%**	52%	3%
Total	**100%**	100%		**100%**	100%	

Marquee's fourth quarter sales decreased 48% to 2,558 boe/d compared to the fourth quarter of 2015. Production was comprised of crude oil and NGL production averaging 1,219 boe/d and natural gas production averaging 8,034 mcf/d. Production declines quarter over quarter are a result of property dispositions, natural decline of existing light oil wells, and overall decreased drilling activity. The fourth quarter of 2016 compared to the prior year shows the result of the disposition of non-core shallow gas assets with average daily production of approximately 5,700 mcf/d, and its heavy oil Lloydminster assets with average daily production of approximately 350 bbl/d.

Daily production for the twelve months ended December 31, 2016 decreased by 34%, compared to the same period in 2015, averaging 3,361 boe/d comprised of 1,558 boe/d crude oil and NGL production and 10,824 mcf/d natural gas production.

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

	Three months ended December 31,			Years ended December 31,		
	2016	2015	Change	**2016**	2015	Change
Benchmark prices						
WTI ($US/bbl)	**$ 49.29**	$ 42.18	17%	**$ 43.32**	$ 48.80	-11%
$C/$US foreign exchange rate	**$ 0.75**	$ 0.75	0%	**$ 0.76**	$ 0.79	-5%
WTI ($C/bbl)	**$ 65.73**	$ 56.22	17%	**$ 57.26**	$ 62.14	-8%
WCS Hardisty ($C/bbl)	**$ 46.61**	$ 36.86	26%	**$ 38.88**	$ 44.82	-13%
AECO natural gas ($/mcf)	**$ 3.07**	$ 2.34	31%	**$ 2.15**	$ 2.55	-16%
Average sales prices						
Light oil ($/bbl)	**$ 51.38**	$ 42.76	20%	**$ 42.78**	$ 46.60	-8%
Heavy oil ($/bbl)	**$ -**	$ 29.35	-	**$ 23.61**	$ 38.26	-38%
NGL ($/bbl)	**$ 30.52**	$ 32.67	-7%	**$ 32.37**	$ 34.91	-7%
Natural gas ($/mcf)	**$ 3.49**	$ 2.60	34%	**$ 2.23**	$ 2.84	-21%
Combined ($/boe)	**$ 34.05**	$ 26.83	27%	**$ 25.64**	$ 29.81	-14%

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 three months ended December 31, 2016, the WTI crude oil price benchmark averaged US$49.29/bbl as compared to US$42.18/bbl in the comparable 2015

period representing a 17% increase, Marquee's realized price for the same period increased from$42.76 to $51.78, a 20% increase. Crude oil prices have appreciated from the lows of an oversold market in early 2016. Rebalancing of the oversupplied market appears to be occurring and with certain OPEC and non-OPEC member's intentions to cut back production, we should see storage levels come down and a strengthening of oil prices in the near and medium term.

Marquee's light oil discount to the Canadian-dollar equivalent WTI price averaged $14.35/bbl for the three months ended December 31, 2016 compared to $13.46/bbl in the comparable 2015 period.

Alberta AECO natural gas benchmark pricing increased 34% for the three months ended December 31, 2016 as compared to the same period in 2015. Consequently, the average realized price for the three months ended December 31, 2016 increased to $3.49 per mcf as compared to $2.60 per mcf in the fourth quarter of 2015. On a 4th quarter over 4th quarter basis Marquee's realized gas price is up 35% to $3.49 from $2.59 per mcf last quarter. Marquee's natural gas sales are priced with reference to the Alberta AECO-5A market reference price. Currently, North American natural gas prices have recovered from Summer 2016 lows, as a result reduced gas storage inventory due to favorable weather conditons in early Winter 2016.

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)	**2016**	2015	Change	**2016**	2015	Change
Light oil	**4,951**	6,653	-26%	**19,631**	27,999	-30%
Heavy oil	**-**	1,245	-100%	**1,397**	8,351	-83%
NGLs	**482**	529	-9%	**1,678**	2,357	-29%
Natural gas	**2,580**	3,726	-31%	**8,832**	16,430	-46%
Total revenue	**8,013**	12,153	-34%	**31,538**	55,137	-43%

Total revenue for the fourth quarter of 2016 decreased by 34% to $8.0 million compared to $12.2 million in the fourth quarter of 2015. Total revenue for the twelve months ended December 31, 2016 decreased by 43% to $31.5 million compared to $55.1 million for the twelve months ended December 31, 2015. The decrease in annual revenue is primarily due to the decline in benchmark and realized commodity prices, decreased production on existing wells due to drilling inactivity and natural decline, and the Lloydminster and shallow gas dispositions.

Commodity Price Contracts and Risk Management

The Company's financial result with be dependent on the prices received for crude oil and natural gas production. North American crude oil prices are recovering from the lows in early 2016 as the global oversupply diminishes and the market moves back into balance. Natural gas benchmark prices have also recovered due to supply and demand factors, including weather, and economic conditions in natural gas consuming and producing regions. Management has proactively partially mitigated future commodity price risk by entering into crude oil and natural gas hedging contracts. The commodity contract position as at the date of this MD&A is as follows:

Product	Type	Notional Volumes	Price	Index	Term
Crude oil	Swap	500 bbl/day	US$55.00/bbl	WTI-Fixed	Apr.01, 2017 to Jun.30,2017
Crude oil	Swap	250 bbl/day	US$55.00/bbl	WTI-Fixed	Jul.01,2017 to Sep.30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$3.05/GJ	AECO-Fixed	Jan.01,2018 to Mar.31,2018
Natural Gas	Swap	3,000GJ/day	Cdn$2.46/GJ	AECO-Fixed	Apr.01 to June 30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$2.48/GJ	AECO-Fixed	Jul.01 to Sept. 30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$3.00/GJ	AECO-Fixed	Oct. 01 to Dec. 31, 2017

A summary of realized and unrealized commodity contract gains and losses for the three and twelve months ended December 31, 2016 and 2015 are as follows:

	Three months ended December 31,			Year ended December 31,		
($000s)	**2016**	2015	Change	**2016**	2015	Change
Realized gain (loss) on commodity contracts	**(294)**	2,100	-114%	**1,737**	9,198	-81%
Unrealized gain (loss) on commodity contracts	**250**	-211	-218%	**(1,633)**	(4,420)	-63%
	(44)	1,889	-102%	**104**	**4,778**	-98%

Marquee realized a commodity contract gain for the year ended December 31, 2016 of $1.7 million, with a 2016 fourth quarter loss of $0.3 million due to oil price recovery in the 4th quarter compared to the third quarter. For the year ended December 31, 2016, an unrealized loss of $1.6 million was recognized, being the decrease in fair value to a net derivative asset of $1.6 million at December 31, 2015, as compared to a nil net derivative liability at December 31, 2016. 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 settled at December 31, 2016 corresponding to when the Company recognized sales from production.

Royalties

	Three months ended December 31,			Year ended December 31,		
($000s, except per boe amounts)	**2016**	2015	Change	**2016**	2015	Change
Royalties	**385**	1,544	-75%	**2,443**	6,603	-63%
As a percentage of revenue	**5%**	13%	-62%	**8%**	12%	-35%
$/boe	**1.64**	3.41	-52%	**1.99**	3.57	-44%

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, 2016 decreased to $0.4 million compared to $1.5 million for the same period in 2015. Royalties for the twelve months ended December 31, 2016 decreased to $2.4 million compared to $6.6 million in the comparable 2015 period. As a percentage of sales, royalties declined representing reduced royalty rates applied to all commodities due to lower benchmark pricing and the sale of the Lloydminster heavy oil property.

Production and Transportation Expenses

	Three months ended December 31,			Year ended December 31,		
($000s, except per boe amounts)	**2016**	2015	Change	**2016**	2015	Change
Production and operating costs	**5,489**	8,146	-33%	**20,034**	28,689	-30%
Transportation costs	**231**	296	-22%	**1,536**	2,278	-33%
	5,720	8,442	-32%	**21,570**	30,967	-30%
$/boe	**24.31**	18.64	30%	**17.53**	16.74	5%

Production and transportation costs for the fourth quarter were $5.7 million or $24.31 per boe compared to $8.1 million or $18.64 per boe for the fourth quarter of 2015. Quarterly production and operating costs on a per boe basis increased 30% compared to the comparable 2015 quarter. The overall increase in production and operating costs are due to well suspensions that were done to comply with regulatory requirements. In addition, due to high fixed costs on older wells, operating costs are not declining at the same rate as production, as well as Increased lease rental expense and property tax booked in the quarter. Transportation costs for the three months ended December 31, 2016 were lower when compared with the comparable 2015 period due to lower volumes resulting from both the sale of the shallow gas properties and declining production from existing wells.

Production and transportation costs for the twelve months ended December 31, 2016 were $21.6 million or $17.53 per boe compared to $31.0 million or $16.74 per boe in the twelve months of 2015. Overall decrease in production and operating costs for the year are due to the aforementioned factors.

General and Administrative Expenses

	Three months ended December 31,			Year ended December 31,		
($000s, except per boe amounts)	**2016**	2015	Change	**2016**	2015	Change
G&A expense, gross	**1,844**	1,432	29%	**5,772**	7,856	-27%
Recovered and capitalized	**(369)**	(388)	-5%	**(854)**	(1,670)	-49%
G&A expense, net	**1,475**	1,044	41%	**4,918**	6,186	-20%
$/boe, net	**6.27**	2.30	173%	**4.00**	3.34	20%

During the fourth quarter of 2016, general and administrative expense "G&A", net of capitalized and overhead recovery costs was $1.5 million or $6.27 per boe as compared to the quarter ended December 31, 2015 where G&A expenses were $1.0 million or $2.30 per boe. Gross G&A expenses prior to the effects of capitalized and overhead recoveries amounts were $1.8 million compared to $1.4 million for 2015. During the fourth quarter G&A increased in comparison to the prior year due to costs associated with the AOS acquisition including fees associated with banking, legal and board meetings.

G&A decreased for the twelve months ended December 31, 2016 compared to the same period in 2015, 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, and decreased consulting 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, 2016, the Company had 11,700,000 stock options, from AOS, which were issued at an average exercise

price of $0.12 per option. All Marquee options were cancelled with the acquisition agreement.

For the three and twelve months ended December 31, 2016 and 2015, the following is recorded related to SBC:

	Three months ended December 31,			Year ended December 31,		
($000s)	**2016**	2015	Change	**2016**	2015	Change
SBC expense, gross	**124**	1,103	-89%	**555**	2,207	-75%
SBC, capitalized	**(11)**	(268)	-96%	**(36)**	(533)	-93%
SBC expense, net	**113**	835	-86%	**519**	1,674	-69%

Finance Expenses

	Three months ended December 31,			Year ended December 31,		
($000s, except per boe amounts)	**2016**	2015	Change	**2016**	2015	Change
Interest on bank debt	**1,199**	391	207%	**2,966**	1,790	66%
Bad debt expense	**90**	375	-76%	**317**	276	15%
Accretion of decommissioning liabilities	**214**	276	-22%	**1,088**	1,311	-17%
	1,413	1,042	36%	**4,371**	3,377	29%
$/boe	**6.00**	2.30	161%	**3.55**	1.83	94%

For the three and twelve months ended December 31, 2016, finance expenses increased by 36% and 29% respectively. The increase in interest charges are attributable to higher interest rates and fees charged on the Company's renewed credit facility. The decrease in accretion is due to reduced asset retirement obligations in connection to the Lloydminster and Shallow gas asset dispositions.

Transaction Costs

	Three months ended December 31,			Year ended December 31,		
($000s)	**2016**	2015	Change	**2016**	2015	Change
Transaction costs	**2,509**	143	1655%	**3,491**	1,100	217%

Transaction costs are the costs specific to transactions the Company enters into such as acquisitions and dispositions. For the year ending December 31, 2016, $0.3 million of these costs relate to the disposition of the Lloydminster oil assets and the disposition of the shallow gas properties, and $3.2 million relate to the costs associated with the acquisition agreement with AOS.

Depletion and Depreciation and Impairment

	Three months ended December 31,			Year ended December 31,		
($000s, except per boe amounts)	**2016**	2015	Change	**2016**	2015	Change
Depletion and depreciation	**4,104**	9,064	-55%	**22,989**	35,423	-35%
Impairment	**-**	1,195	-100%	**-**	6,180	-100%
	4,104	10,259	-60%	**22,989**	41,603	-45%
$/boe	**17.44**	22.65	-23%	**18.69**	21.74	-14%

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, 2016 the Company recorded depletion expense of $4.1 million or $17.38 per boe compared to $9.1 million or $20.01 per boe in the fourth quarter of 2015. For the twelve months ended December 31, 2016 the Company recorded depletion expense of $23.0 million or $18.69 per boe compared to $35.4 million or $19.15 per boe in the comparable 2015 period. The reduction in depletion expense in aggregate and on a per boe basis is due to decreased production, and the reduction to the depletable reserve base due to the Lloydminster and shallow gas asset dispositions.

For the three months and year ending December 31, 2016 the Company recorded nil impairment expense (2015 - $1.2 and $6.2 million). At December 31, 2015, it was determined that the significant decline of commodity prices was an indication of impairment, and impairment tests were preformed on the Company's CGUs. The recoverable amount 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 the *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%).

Gain (loss) on disposition of oil and gas interests

On May 31, 2016, the Company completed a shallow gas disposition 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. The asset included approximately 500 gross (396 net) wells and average production of approximately 5,700 mcf/d. The gross proceeds were used to reduce the Company's current debt. The disposition is consistent with Marquee's strategy to divest non-core assets to further focus on its core Banff light oil play at Michichi.

On June 6, 2016, the Company disposed of its 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 property averaged approximately 350 barrels per day of heavy oil production and generated minor cash flow after payment of operating and royalty costs. As previously reported in 2015, Marquee sold a production volume royalty ("PVR") on its Lloydminster property in return for $20 million. A portion of these proceeds were used to fund a strategic acquisition by the Company in its core light oil property at Michichi. Under the PVR agreement, Marquee committed the first 137.5bbl/d of production from the Lloydminster property to the royalty owner and made a commitment to spend a minimum of $2.75 million per year for 8 years beginning in 2016 on drilling activities related to the PVR lands. Marquee has assigned its interest in the Lloydminster property along with all related PVR obligations and capital commitments to the buyer. The disposition of the Lloydminster property had a positive effect on the Company's PDP NPV10 reserves and credit facility.

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 three and twelve months ended December 31, 2016, as a result of depressed world market oil and natural gas prices and management's judgment related to recognition of deferred tax assets, the Company did not record the benefit of deferred tax compared to a deferred tax expense of $9.7 million and $6.0 million for the comparable three and twelve month periods in 2015.

Funds Flow from Operations and Net Income (Loss)

($000s, except per share and per boe amounts)	Three months ended December 31, 2016	2015	Change	Year ended December 31, 2016	2015	Change
Funds flow from operations	**(878)**	2,471	-136%	**1,169**	18,402	-94%
Per share, basic and diluted	**-**	0.01	-100%	**0.01**	0.09	-89%
Net loss	**(10,063)**	(26,701)	-62%	**(22,185)**	(53,419)	-58%
Per share, basic and diluted	**(0.04)**	(0.13)	-69%	**(0.10)**	(0.27)	-62%

Funds flow from (used in) operations for the three months ended December 31, 2016 was ($0.9) million, compared to $2.5 million for the fourth quarter of 2015. Funds flow from operations for the twelve months ended December 31, 2016 was $1.2 million, compared to $18.4 million in the comparable 2015 period. The decrease year over year is due to lower netbacks resulting from the significant reduction in realized commodity prices and reduced realized hedging gains and lower production volumes as well as transaction costs associated with the acquisition of AOS.

The net loss for the three months ended December 31, 2016 was $10.1 million ($0.04 per share, basic and diluted) compared to a net loss of $26.7 million ($0.13 per share, basic and diluted) for the same period in 2015. The net loss for the twelve months ended December 31, 2016, was $22.2 million ($0.10 per share, basic and diluted) compared to net loss of $53.4 million ($0.27 per share, basic and diluted) for the same period in 2015.

($000s)	Three months ended December 31, 2016	2015	Change	Year ended December 31, 2016	2015	Change
Cash flow from operations	**(1,741)**	2,440	-142%	**762**	19,974	-112%
Decommissioning expenditures	**499**	24	1979%	**745**	413	80%
Transaction costs	**2,509**	143	1655%	**3,491**	1,100	217%
Changes in non-cash working capital	**(2,145)**	(136)	1477%	**(3,829)**	(3,085)	-100%
Funds flow from (used in) operations	**(878)**	2,471	-106%	**1,169**	18,402	-90%

The following table summarizes the Company's netbacks, funds flow from (used in) operations and net income (loss) on a per boe basis for the three and twelve months ended December 31, 2016 and 2015:

($/boe)	Three months ended December 31, 2016	2015	Change	Year ended December 31, 2016	2015	Change
Sales	**34.05**	26.83	27%	**25.64**	29.81	-14%
Royalties	**(1.64)**	(3.41)	-52%	**(1.99)**	(3.57)	-44%
Production costs	**(23.32)**	(17.98)	30%	**(16.29)**	(15.51)	5%
Transportation costs	**(0.97)**	(0.65)	49%	**(1.25)**	(1.23)	2%
Operating netback prior to hedging	**8.12**	4.78	70%	**6.11**	9.50	-36%
Realized hedging gain (loss)	**(1.25)**	4.64	-127%	**1.41**	4.97	-72%
Operating netback	**6.87**	9.42	-27%	**7.52**	14.47	-48%
General and administrative expenses	**(6.27)**	(2.30)	173%	**(4.00)**	(3.34)	20%
Interest expense	**(5.10)**	(0.84)	507%	**(2.65)**	(1.83)	32%
Funds flow from (used in) operations	**(4.50)**	6.28	-172%	**0.87**	9.30	-88%
Depletion and depreciation	**(17.44)**	(20.01)	-13%	**(18.69)**	(19.15)	-2%
Accretion	**(0.91)**	(0.61)	49%	**(0.88)**	(0.71)	24%
Share-based compensation	**(0.48)**	(1.84)	-74%	**(0.42)**	(0.90)	-53%
Unrealized gain (loss) on commodity price contracts	**1.05**	(0.47)	-323%	**(1.33)**	(2.39)	-44%
Gain on disposition	**(0.25)**	-	NM	**7.09**	0.90	NM
Transaction costs	**(10.66)**	(0.32)	3231%	**(2.84)**	(0.59)	381%
Exploration and evaluation expenditures	**(12.21)**	(38.48)	-100%	**(2.34)**	(10.33)	-100%
Deferred tax expense	**2.64**	0.03	-100%	**0.51**	(3.26)	-100%
Net income (loss) and comprehensive loss	**(42.76)**	(55.42)	-40%	**(18.03)**	(27.13)	-41%

Capital Expenditures (Dispositions)

($000s)	Three months ended December 31, 2016	2015	Year ended December 31, 2016	2015
Land and lease (1)	**98**	176	**386**	2,184
Seismic (1)	**620**	-	**692**	361
Drilling and completions (1)	**36**	833	**122**	11,161
Equipment and facilities (1)	**129**	1,012	**(222)**	3,873
Acquisitions	**-**	-	**-**	27,049
Dispositions (2)	**-**	(46)	**(5,127)**	(38,653)
Office and other (3)	**169**	410	**763**	960
	(1,052)	2,385	**(3,386)**	6,935

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

(2) Proceeds on dispositions

(3) Excludes non-cash additions

CAPITAL RESOURCES AND LIQUIDITY

Credit Facility

At December 31, 2016, the Company has a syndicated credit facility ("credit facility") with two Canadian Chartered Banks. The credit facility has a borrowing base of $25 million, comprised of a $5 million revolving demand facility ("revolving loan") and a $20 million operating demand facility ("operating loan"). In addition, the Company has a $5 million development line which is available for development opportunities under approval by all lenders. 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 400 bps) or, Bankers' Acceptance ("BA") rates plus an additional margin (of 175 bps to 525 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, 2016, the interest rate is prime plus 400 bps and the BA rate as quoted plus 525 bps.

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. 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 facility, if any, that will be determined at each review. If the credit facility availability is decreased, the Company has to repay any shortfall. The current credit facility agreement ends on May 31, 2017 and there are uncertainties with respect to the status of the amount and level it will be maintained (refer to liquidity section below).

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, 2016, the Company was in compliance with the adjusted working capital ratio covenant of 1.9 to 1.0.

Liquidity

The current economic environment relating to the oil and gas industry has made access to capital, both debt and equity, challenging for many companies. The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. 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's credit facility is based on the bank's determination of the Company's borrowing base utilizing the Company's risked reserves and the lenders assessment of future commodity prices. The facility was amended and restated on December 6, 2016 which resulted in the borrowing base being reduced from $48 million to $25 million. Subsequent to December 31, 2016, Marquee entered into an amending agreement with its lender which extended the credit facility agreement to May 31, 2017. The current economic environment relating to the oil and gas industry has made access to capital, both debt and equity, challenging for many companies. As a result, there are uncertainties with respect to the renewal of the credit facility and there can be no assurance that the Company will be successful in its efforts to maintain the credit facility at acceptable levels or to arrange additional financing or complete additional asset dispositions or other transactions on terms satisfactory to the Company or at all, which could result in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. In response, management is actively engaged in the following initiatives:

- Negotiated a commitment letter with third party which would provide the Company with sufficient debt to meet its obligations
- In addition, management is negotiating with its existing lender, as well as other lenders, to obtain maximize and extend its credit facility.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will be able to secure additional and/or alternative financing to ensure that sufficient cash resources exist to meet its ongoing obligations as they become due in the normal course of operations.

Capital Management

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. 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) net debt to annualized funds flow from operations and 2) net debt. The net debt to annualized funds flow from operations represents the time period it would take to pay off the 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 following table summarizes the Company's net debt to funds flow from operations calculation, as at:

($000s, except ratios)	**December 31, 2016**	December 31, 2015
Current assets, excluding commodity contracts	**6,124**	7,488
Bank debt	**(15,626)**	(52,415)
Accounts payable and accrued liabilities, excluding commodity contracts	**(7,663)**	(5,352)
Net debt	**(17,165)**	(50,279)
Annual funds flow from operations	**1,169**	18,402
Net debt to funds flow from operations	**14.7**	2.7

As at December 31, 2016, the Company's ratio of net debt to funds flow from operations was 14.7 to 1 (December 31, 2015 – 2.7 to 1). The increase in the ratio at December 31, 2016 was a result of a decrease in funds flow from operating activities caused by the decline in benchmark and realized commodity prices and decreased realized hedging gains, as well as transaction costs relating to the acquisition of AOS.

The following table summarizes the Company's working capital ratio:

($000s)	**December 31, 2016**	December 31, 2015
Current assets, excluding commodity price contracts	**6,124**	7,488
Undrawn available credit	**8,717**	6,785
Subtotal	**14,841**	14,273
Current liabilities, excluding bank debt and commodity price contracts	**7,663**	5,352
Working capital ratio	**1.9 to 1.0**	2.7 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 credit 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, 2016, the working capital ratio was 1.9 to 1.0 (December 31, 2015 – 2.7 to 1.0) and the Company was in compliance with the covenant. The following table summarizes the Company's working capital calculation as defined by its lending facility covenants, as at:

Contractual Obligations

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.

On December 29, 2016, the Company issued 16,533,500 flow-through shares at $0.17/share for proceeds of $2.8 million. The Company committed to spend $2.8 million of qualifying expenditures by December 31, 2017.

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 entered into a non-cash arrangement with a third party to exchange seismic with a value of $1.7 million which full-filled the flow through share obligation.

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	1,147
	1,405

Common Share and Warrant Information

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

	April 28, 2017	December 31, 2016	December 31, 2015
Common shares	**435,772,196**	435,772,196	205,686,639
Stock options	**24,840,000**	11,700,000	7,890,000
Warrants (expired June 12, 2016)	**-**	-	1,146,226

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;
- Operating in an environmentally appropriate fashion: and
- Expectations regarding the ability of Marquee to maintain its credit facility and/or secure additional alternative financing.

The Company mitigates these business risks by:

- Maintaining cost-effective operations;

- 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;
- Focusing operations to 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 RESULTS

The following table summarizes the Company's key quarterly financial results for the past eight quarters:

	2016				2015				2016	2015	2014
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1			
Financial											
Total revenue	**8,013**	**7,432**	**8,344**	**7,749**	12,153	12,792	16,082	14,110	31,538	55,137	89,643
Funds flow from (used in) operations	**(878)**	**186**	**470**	**1,392**	2,471	2,613	6,316	7,002	1,897	18,402	37,312
Basic & diluted ($/share)(1)	**-**	**-**	**-**	**0.01**	0.01	0.01	0.03	0.03	0.01	0.09	0.22
Net income/(loss)	**(10,063)**	**(5,247)**	**1,043**	**(7,918)**	(26,701)	(17,837)	(4,750)	(4,131)	(22,185)	(53,419)	(12,809)
Basic and diluted ($/share)(1)	**(0.045)**	**(0.03)**	**0.01**	**(0.04)**	(0.13)	(0.09)	(0.02)	(0.02)	(0.10)	(0.27)	(0.08)
Capital expenditures (2)	**1,052**	**210**	**377**	**100**	2,386	8,577	949	6,627	2,852	18,539	58,275
Total assets	**169,162**	**178,553**	**182,647**	**217,189**	227,941	258,956	265,779	270,972	169,162	227,941	281,976
Total equity	**90,412**	**68,134**	**73,258**	**72,098**	79,821	104,421	121,984	126,324	90,412	79,821	130,035
Net debt	**17,165**	**45,019**	**44,275**	**49,058**	50,279	51,904	48,829	54,064	17,165	50,279	63,130
Weighted average common shares outstanding	**266,382**	**205,687**	**205,687**	**205,687**	201,430	200,969	200,969	200,969	226,382	201,085	167,822
Operations											
Average daily production											
Crude oil (bbl/d)	**1,047**	**1,240**	**1,265**	**1,457**	1,691	1,437	1,711	1,749	1,254	1,646	1,425
Heavy oil (bbl/d)	**0**	**10**	**261**	**407**	461	542	622	771	162	598	537
NGLs (bbl/d)	**172**	**148**	**136**	**157**	176	152	185	227	142	185	195
Natural gas (mcf/d)	**8,034**	**8,241**	**12,864**	**14,451**	15,578	15,430	15,599	16,733	10,824	15,831	16,203
Total boe/d	**2,558**	**2,772**	**3,806**	**4,430**	4,924	4,703	5,118	5,536	3,361	5,068	4,858

(1) Prior period per share amounts have been recalculated due to the reverse takeover of AOS by Marquee to reflect AOS number of shares outstanding multiplied by the exchange ratio of 1.67.
(2) Excludes acquisitions and dispositions.

Three months ended December 31, 2016 (Q4-2016) compared to September 30, 2016 (Q3-2016)

Revenue for the fourth quarter was up 8% compared to Q3. Production was down slightly quarter to quarter but prices recovered in the fourth quarter, on a boe basis prices in Q4 were up by 17% compared to Q3. Capital for the quarter represent capitalized G&A and lease rentals on producing properties. The reverse acquisition of AOS was recorded as of the date of amalgamation – December 6, 2016. The larger loss in Q4 compared to Q3 is partially attributable to the $3.2 million in transaction costs relating to the AOS acquisition.

Three months ended September 30, 2016 (Q3-2016) compared to June 30, 2016 (Q2-2016)

Total revenue was lower in Q3 compared to Q2 as a result of being the first full quarter of decreased volumes as a result of the properties sold. Realized oil prices remained consistent with Q2 but gas prices increased by 82% to $2.58 compared to $1.42 for Q2. The swing from net income of $1,043 in Q2 to a loss of $5,247 in Q3 is mainly due to the gain on sale of property recorded in Q2. Capital expenditures for the quarter represent capitalized G&A and lease rentals on producing and non-producing lands.

Three months ended June 30, 2016 (Q2-2016) compared to March 31, 2016 (Q1-2016)

Total revenue was higher in Q2 2016 compared to Q1 2016 due to increased commodity benchmark and realized prices slightly offset by decreased production. Net income in the Q2 2016 was mainly attributable to the net gain on petroleum

and natural gas interests related to the disposition of the Lloydminster and shallow gas assets. Capital expenditures in the period represent capitalized G&A and lease rentals on producing and non-producing lands.

Three months ended March 31, 2016 (Q1-2016) compared to December 31, 2015 (Q4-2015)
Total revenue was lower in Q1 2016 compared to Q4 2015 due to decreased production volumes and decreased commodity benchmark and realized prices. The lower net loss in Q1 2016 compared to Q4 2015 was due to decreased depletion charges, prior quarter impairment charges and exploration and evaluation expenses relating to expired undeveloped land, offset by decreased Q1 2016 operating netbacks. Reduced capital expenditures in the quarter are reflective of zero wells drilled since Q3 2015 and a corporate strategy to defer further optional capital spending until commodity price recovery.

Three months ended December 31, 2015 (Q4-2015) compared 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 undeveloped land expiry's, 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, fourth 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 one well in Q1 2015.

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 (used in) operations" which should not be considered an alternative to, or more meaningful than "cash flow from operations" 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, consistent with the calculation of income(loss) per share.

	Three months ended December 31,	Year ended December 31,

($000s)	**2016**	2015	Change	**2016**	2015	Change
Cash flow from operations	**(1,741)**	2,440	-1712%	**762**	19,974	-96%
Decommissioning expenditures	**499**	24	1979%	**745**	413	80%
Transaction costs	**2,509**	143	1655%	**3,491**	1,100	217%
Changes in non-cash working capital	**(2,145)**	(136)	1477%	**(3,829)**	(3,085)	24%
Funds flow from (used in) operations	**(878)**	2,471	-136%	**1,169**	18,402	-94%

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 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 operations 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 as its core CGU.

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 2016 and 2015 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
Any 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

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 amendments have been applied by the Company effective January 1, 2016 and did not have any effect on the Company's financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

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. The Company is currently evaluating the impact that these standards will have on the results of operations and financial position.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018, and must be applied retrospectively with some exceptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the financial statements and does not anticipate a material change to the valuation of its financial assets.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. In July 2015, the IASB issued an amendment to IFRS 15, deferring the effective date by one year. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, which required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15, Revenue from Contracts with Customers. The Company is evaluating the impact of the standard 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.

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:

- 2017 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

Dr. William Roach
Chairman of the Board

Adrian Goodisman

Stephen J. Griggs

Paul Moase

Leonard Sokolow

Richard Thompson

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 and Investor Relations

Rob Lemermeyer
Vice President, Production

Dave Washenfelder
Vice President, Exploration

Sam Yip
Vice President, Engineering

CORPORATE HEADQUARTERS

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AUDITORS

KPMG LLP
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Burstall Winger Zammit LLP
Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

CST Trust Company
Toronto, Ontario

RESERVE EVALUATORS

Sproule Associates Ltd.
Calgary, Alberta

STOCK MARKET INFORMATION

TSX.V: MQX.V (CAD)
OTC: MQXDF (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, 2016

KPMG LLP
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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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (a) in the financial statements which indicates that Marquee Energy Ltd. has uncertainties relating to the renewal of its existing credit facility. This condition, along with other matters as set forth in Note 2 (a) in the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about Marquee Energy Ltd.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants

April 28, 2017
Calgary, Canada

STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian dollars)

	Note	December 31, 2016	December 31, 2015
Assets			
Current Assets			
Accounts receivable	7	5,540	6,144
Prepaid and other expenses		584	1,344
Commodity price contracts	20c	-	1,633
Total current assets		**6,124**	9,121
Exploration and evaluation assets	8	**11,209**	14,600
Property, plant and equipment	9	**151,829**	204,220
Total assets		**169,162**	227,941
Liabilities			
Current Liabilities			
Bank debt	11	15,626	52,415
Accounts payable and accrued liabilities		7,663	5,352
Total current liabilities		23,289	57,767
Decommissioning liabilities	12	54,962	89,732
Flow through share premium	14b	497	621
Total liabilities		78,748	148,120
Shareholders' Equity			
Share capital	14b	212,499	180,436
Contributed surplus		12,609	11,894
Deficit		(134,694)	(112,509)
Total shareholders' equity		90,414	79,821
Total liabilities and shareholders' equity		169,162	227,941
Liquidity	20		
Commitments	19		
Subsequent events	20c and 15b		

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, 2016	2015
Revenue			
Oil and natural gas sales		**31,538**	55,137
Royalties		**(2,443)**	(6,603)
Revenue, net of royalties		**29,095**	48,534
Realized gain on commodity price contracts		**1,737**	9,198
Unrealized gain (loss) on commodity price contracts		**(1,633)**	(4,420)
Net revenue before expenses		**29,199**	53,312
Expenses			
Production and operating		**20,034**	28,689
Transportation		**1,536**	2,278
General and administrative		**4,918**	6,186
Finance	16	**4,371**	3,377
Transaction costs	5	**3,491**	1,100
Gain on disposition of oil and gas interests	9	**(8,727)**	(1,669)
Gain on acquisition of oil and gas interests	9	**-**	(1,667)
Share-based compensation	14c	**519**	1,674
Depletion and depreciation	9	**22,989**	41,603
Exploration and evaluation		**2,874**	19,128
Total expenses		**52,005**	100,699
Loss before income taxes		**(22,806)**	(47,387)
Deferred income tax expense (recovery)		**(621)**	6,032
Net loss and comprehensive loss		**(22,185)**	(53,419)
Net loss per share			
Basic and diluted	13c	**(0.10)**	(0.27)

See *accompanying notes to the financial statements*

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of Canadian dollars)

	Note	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance at December 31, 2014		179,438	9,687	(59,090)	130,035
Issued for cash		1,695			1,695
Share issue costs		(76)			(76)
Flow-through share premium		(621)			(621)
Stock-based compensation	14c	-	2,207	-	2,207
Net loss for the period		-	-	(53,419)	(53,419)
Balance at December 31, 2015		180,436	11,894	(112,509)	79,821
Balance at January 1, 2016	14	180,436	11,894	(112,509)	79,821
Shares issued on reverse acquisition	14	29,909			29,909
Issued for cash	14	2,814			2,814
Issued for consideration (Smoothwater)	14	110			110
Share issue costs	14	(274)			(274)
Flow-through share premium	14	(496)			(496)
Share-based compensation	14	-	715	-	715
Net loss for the period		-	-	(22,185)	(22,185)
Balance at December 31, 2016		**212,499**	**12,609**	**(134,694)**	**90,414**

See accompanying notes to the financial statements

STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars)

	Note	Years ended December 31, 2016	2015
Cash flows from (used in) operating activities			
Net loss for the year		**(22,185)**	(53,419)
Adjustments for:			
Amortization of other liabilities		**-**	(111)
Depletion and depreciation	9	**22,989**	41,603
Share-based compensation expense	15c	**519**	1,674
Unrealized loss on commodity contracts		**1,633**	4,420
Gain on disposition of oil and natural gas interests	9	**(8,727)**	(1,669)
Gain on acquisition of oil and gas interests	9	**-**	(1,667)
Accretion of decommissioning liabilities	2	**1,088**	1,311
Exploration and evaluation expenditures	8	**2,874**	19,128
Deferred income tax expense (recovery)		**(621)**	6,032
Shares issued for consideration (Smoothwater)		**110**	-
Decommissioning expenditures	12	**(745)**	(413)
Changes in non-cash working capital	17	**3,829**	3,085
Net cash from (used in) operating activities		**762**	19,974
Cash flows from (used in) investing activities			
Exploration and evaluation asset expenditures	8	**(356)**	(2,545)
Property, plant and equipment expenditures	9	**(1,385)**	(15,994)
Asset acquisitions		**-**	(27,049)
Proceeds on disposition of property, plant and equipment	9	**5,127**	38,643
Proceeds on disposition of exploration and evaluation assets		**-**	10
Changes in non-cash working capital	17	**473**	(8,308)
Net cash from (used in) investing activities		**3,859**	(15,243)
Cash flows from (used in) financing activities			
Proceeds from (repayment) of bank debt	11	**(36,789)**	(6,350)
Proceeds from issue of share capital		**2,814**	1,695
Proceeds from reverse takeover	5	**29,628**	-
Share issue costs		**(274)**	**(76)**
Cash used in financing activities		**(4,621)**	(4,731)
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 "MQX.V", and on the United States OTC Market ("OTCQX") under the symbol "MQXDF", 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 December 6, 2016, Marquee and Alberta Oilsands Inc. ("AOS") completed an Arrangement Agreement (the "Agreement") in which all of the issued and outstanding shares of Marquee were transferred to AOS, and each holder thereof was entitled to receive from AOS, the consideration comprised of each number of AOS shares as determined in accordance to the exchange ratio. The exchange ratio was 1.67 AOS shares for each Marquee share through which AOS shareholders became the majority shareholder of Marquee. The transaction was accounted for as a reverse takeover of AOS by Marquee, with Marquee being the continuing entity. The transaction resulted in the issuance of common shares such that the control of the combined companies passed to the shareholders of AOS. In conjunction with the transaction, the two companies amalgamated and continued under the name of Marquee Energy Ltd.

These financial statements represent the historical results of Marquee in addition to the results of AOS since the reverse acquisition date of December 6, 2016.

2. BASIS OF PRESENTATION AND FUTURE OPERATIONS

a) Future Operations

The Company's credit facility is based on the bank's determination of the Company's borrowing base utilizing the Company's risked reserves and the lenders assessment of future commodity prices. The facility was amended and restated on December 6, 2016 which resulted in the borrowing base being reduced from $48 million to $25 million. Subsequent to December 31, 2016, Marquee entered into an amending agreement with its lender which extended the credit facility agreement to May 31, 2017. The current economic environment relating to the oil and gas industry has made access to capital, both debt and equity, challenging for many companies. As a result, there are uncertainties with respect to the renewal of the credit facility and there can be no assurance that the Company will be successful in its efforts to maintain the credit facility at acceptable levels or to arrange additional financing or complete additional asset dispositions or other transactions on terms satisfactory to the Company or at all, which could result in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. In response, management is actively engaged in the following initiatives:

- Negotiated a commitment letter with a third party which would provide the Company with sufficient debt financing, and
- Management is actively engaged with its existing lender, as well as other lenders, to obtain a maximum credit facility.

Management believes the use of the going concern assumption is appropriate based upon the assumption that the Company will be able to secure additional and/or alternative financing to ensure that sufficient cash resources exist to meet its ongoing obligations as they become due in the normal course of operations.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for the foreseeable future. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

b) 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.

c) Basis of measurement

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

a) 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 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 in earnings. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded. 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 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 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 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 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 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 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) Interest and capital taxes paid

The Company presents cash flows 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:

(i) Level 1: Values based on 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.

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, 2016 and 2015, the fair value of 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.

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) Changes in accounting policies

There are no material new or amended accounting standards adopted during the year ended December 31, 2016.

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. The Company is currently evaluating the impact that these standards will have on the results of operations and financial position.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018, and must be applied retrospectively with some exceptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the financial statements and does not anticipate a material change to the valuation of its financial assets.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. In July 2015, the IASB issued an amendment to IFRS 15, deferring the effective date by one year. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, which required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15, Revenue from Contracts with Customers. The Company is evaluating the impact of the standard 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 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 estimated fair value of the AOS assets acquired and liabilities assumed at December 6, 2016:

Net assets acquired:	($000's)
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 Marquee shares.

The acquisition entry is preliminary and may be subject to change.

6. ACQUISITIONS

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.

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)

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 9).

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)

7. ACCOUNTS RECEIVABLE

	December 31, 2016	December 31, 2015
Oil and natural gas marketing companies	**2,804**	4,944
Joint interest partners and other	**2,090**	1,200
Government agencies	**646**	-
Total	**5,540**	6,144

8. EXPLORATION AND EVALUATION ASSETS

Cost	($000's)
Balance, December 31, 2014	34,329
Capital expenditures	2,545
Transfers to property, plant and equipment (note9)	(3,111)
Exploration and evaluation costs expensed	(19,128)
Dispositions of exploration and evaluation assets	(35)
Balance, December 31, 2015	14,600
Capital expenditures	356
E&E Assets from AOS	100
Transfers to property, plant and equipment (note 9)	(1,045)
Exploration and evaluation costs expensed	(1,174)
Dispositions of exploration and evaluation assets (note 9)	(1,628)
Balance December 31, 2016	11,209

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, 2016, the Company expensed $1.2 million (2015 - $19.1 million) of certain costs due to undeveloped land expiries and areas the Company does not intend to pursue further in an exploration capacity.

9. PROPERTY, PLANT AND EQUIPMENT

	Oil and natural gas interests	Corporate assets	Total
Cost			
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	34,414	-	34,414
Transfers from exploration and evaluation assets (note 8)	3,111	-	3,111
Change in decommissioning liabilities (note 12)	11,742	-	11,742
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 8)	1,045	-	1,045
Change in decommissioning liabilities (note 12)	(3,949)	-	(3,949)
Balance, December 31, 2016	**274,664**	**818**	**275,482**
Accumulated depletion and depreciation and impairments			
Balance, December 31, 2015	(89,542)	(260)	(89,802)
Depletion and depreciation expense	(35,204)	(219)	(35,423)
Dispositions	5,268	-	5,268
Impairment loss, net of impairment reversals	(6,180)	-	(6,180)
Balance, December 31, 2015	**(125,658)**	**(479)**	**(126,137)**
Depletion and depreciation expense	(22,729)	(260)	(22,990)
Dispositions	25,474	-	25,474
Balance, December 31, 2016	(122,913)	(739)	(123,653)
Net book value			
At December 31, 2015	203,963	257	204,220
At December 31, 2016	151,750	79	151,829

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 its 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 calculation of depletion and depreciation included estimated future development costs of $147.1 million (December 31, 2015- $166.2 million) associated with the development of the Company's proved plus probable crude oil and natural gas reserves. Included in the depletable base, $.07 million was included for 2016, relating to capitalized G&A and capitalized stock based compensation expense.

10. IMPAIRMENT

At December 31, 2016, the Company did not identify any indicators of impairment and therefore did not perform impairment tests.

At December 31, 2015, it was determined that the significant decline in oil 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 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.

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 future AECO natural gas price as compared to those used in the December 31, 2014 estimates, resulted in the 2015 impairment charges related to the Heavy oil and Non-core CGUs of $5.4 million and $0.8 million respectively, due to 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.

11. BANK DEBT

At December 31, 2016, the Company has a syndicated credit facility ("facility") with two Canadian Chartered Banks. The facility has a borrowing base of $25.0 million, comprised of a $5 million revolving credit facility ("revolving loan") and a $20 million operating credit facility ("operating loan"). In addition, the Company has a $5 million development line which is available with approval from all lenders.

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, 2016, the interest rate is prime plus 175 bps and the BA rate is quoted plus 275 bps.

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. 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 facility, if any, that will be determined at each review. If the credit facility availability is decreased, the Company has to repay any shortfall. The current credit facility agreement ends on May 31, 2017 and there are uncertainties with respect to the status of the amount and level it will be maintained (refer to Note 2a for further details).

At December 31, 2016, the Company had drawn $0.5 million on the revolving loan and $15.1 million on the operating loan. At December 31, 2016, the Company has letters of guarantee outstanding for $0.7 million 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, 2016, the Company was in compliance with the adjusted working capital ratio covenant of 1.9 to 1.0 (at December 31, 2015 – 2.7 to 1.0). At yearend, the revolving and operating loans aggregating $25 million with the development line available subject to bank approval.

12. 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, 2016, the total undiscounted cash flows required to settle the liabilities is approximately $85.5 million (December 31, 2015- $113.6 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, 2016 (2015 - 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, 2015 - 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, 2016	December 31, 2015
Decommissioning liabilities, beginning of year	**89,732**	77,578
New liabilities recognized	**-**	262
Change in estimates [1]	**(3,949)**	11,742
Liabilities assumed on acquisitions (note 5 and 6)	**286**	4,419
Liabilities settled on dispositions (note 9)	**(31,450)**	(5,167)
Actual costs incurred	**(745)**	(413)
Accretion	**1,088**	1,311
Decommissioning liabilities, end of year	**54,962**	89,732

(1) Changes in the discount rates and the estimates of the timing costs of abandonment and reclamation are factors resulting in a change in estimate. For the year ended December 31, 2016, the change in estimate included $2.2 million (2015 - $5.7 million) of cost decreases resulting from additional information relating to changes in the timing of abandonments, and an decrease of $1.7 million related to the change in discount rates.

13. 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, 2016 ($)	December 31, 2015 ($)
Loss before income taxes	**(22,806)**	(47,387)
Combined federal and provincial tax rate	**27%**	26%
Expected income tax recovery	**(6,158)**	(12,321)
Share-based compensation and other non-deductible expenses	**144**	153
Flow-through shares	**458**	-
Change in statutory tax rates and other	**(28)**	(1,690)
Change in unrecognized deferred tax asset	**5,583**	19,890
Sub-total	**-**	6,032
Flow through share premium	**(621)**	-
Income tax expense (recovery) per Statement of Operations	**(621)**	6,032
Tax expense recorded directly in gain on acquisition	**-**	538
Total income tax expense (recovery)	**(621)**	6,570

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.

Deferred tax asset (liability)

The components of the deferred tax asset are as follows:

	December 31, 2016 ($)	December 31, 2015 ($)
Deferred tax liabilities		
E&E and PPE assets	**(8,264)**	(18,747)
Commodity price contracts	**-**	(441)
Deferred tax assets		
Decommissioning liabilities	**7,998**	18,691
Share issue costs and other	**266**	497
Net deferred tax asset	**-**	-

	December 31, 2016 ($)	December 31, 2015($)
Temporary differences associated with unrecognized deferred tax assets:		
Non-capital losses (1)	**92,638**	69,670
Decommissioning liabilities	**25,341**	20,496
	117,979	90,166

(1) Expires between 2023-2036

14. 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, 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 – Marquee pre-amalgamation	123,165,652	180,436
Shares exchanged on closing	(123,165,652)	
Existing AOS shares	212,532,057	
Shares issued upon RTO	205,686,639	29,909
Shares issued to Smoothwater	1,000,000	110
Flow-through common shares issued for cash	16,553,500	2,814
Flow-through share premium	-	(497)
Share issue costs	-	(273)
Outstanding, December 31, 2016	**435,772,196**	**212,499**

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.

On December 6, 2016, the 123,165,652 common shares of Marquee were exchanged for 205,686,639 shares of AOS with a stated capital of $29.6 million. AOS and Marquee immediately amalgamated to become Marquee Energy Ltd.

On December 6, 2016, in relation to the acquisition of AOS, 1.0 million common shares with a value of $0.11 per share were issued to Smoothwater Capital Corporation ("Smoothwater").

On December 29, 2016, the Company issued 16,553,500 flow-through shares at $0.17 per flow-through common share. Total proceeds were $2.8 million and share issue costs were $0.2 million. The Company committed to spend 100% of the flow-through funds on qualifying expenditures by December 31, 2017. In conjunction with the issuance, the Company recognized a flow-through share premium of $0.5 million.

c) Per Share Amounts

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

	Years ended December 31,			
		2016		2015
(000s, except share and per share amounts)				
Net loss for the year	**$**	**(22,185)**	$	**(53,419)**
Weighted-average number of common shares				
Basic and diluted		**226,779,380**		354,093,535
Net loss per weighted average common share				
Basic and diluted	**$**	**(0.10)**	$	(0.15)

For the year ended December 31, 2016 and 2015, all options have been excluded from the calculation of diluted loss per share as they would have been anti-dilutive.

15. 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, 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	1.06
Forfeited and/or cancelled	(7,890,000)	1.06
AOS options acquired	11,700,000	0.12
Outstanding, December 31, 2016	**11,700,000**	**0.12**
Exercisable, December 31, 2016	**11,700,000**	**0.12**

During the year ended December 31, 2016 the Company granted nil options. All outstanding Marquee options were cancelled as part of the acquisition agreement.

As part of the acquisition agreement, 11.7 million options of AOS were assumed by to Marquee Energy Ltd.

The following table summarizes the expiry terms and exercise prices of the Company's outstanding stock options as at December 31, 2016:

Exercise Price	Outstanding Options	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price ($)	Outstanding Options Exercisable	Weighted Average Remaining Contractual Term Exercisable (years)	Weighted Average Exercise Price Exercisable ($)
$0.10	8,000,000	0.9	0.10	8,000,000	0.9	0.10
$0.15	3,700,000	0.9	0.15	3,700,000	0.9	0.15
	11,700,000	0.9	0.12	11,700,000	0.9	0.12

Subsequent to year end the Company issued 13,140,000 options to Directors, Officers, and Employees of the Company.

c) Stock-based compensation expense

Compensation costs relating to stock options of $0.5 million for the year ended December 31, 2016 (2015 - $1.7 million) have been expensed and $40 thousand (2015- $0.5 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, 2016	December 31, 2015
Risk-free interest rate	1%	1%
Expected volatility	87%	69%
Expected life	1 years	5 years
Expected dividend yield	N/A	N/A
Estimated forfeiture rate	10%	10%
Fair value per option	$0.18	$0.31
Stock price on grant date	$0.12	$0.54

16. FINANCE EXPENSE

	Year ended December 31, 2016	Year ended December 31, 2015
Accretion of decommissioning liabilities	1,088	1,311
Interest on bank debt	2,966	1,790
Bad debt expense	317	276
	4,371	3,377

17. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

	Year ended December 31,2016	Year ended December 31,2015
Source/(use) of cash:		
Accounts receivable	604	4,095
Prepaid and other expenses	760	928
Accounts payable and accrued liabilities	2,311	(10,246)
Working capital acquired in acquisition	627	-
Changes in non-cash working capital	4,302	(5,223)
Related to operating activities	3,829	3,085
Related to investing activities	473	(8,308)
Changes in non-cash working capital	4,302	(5,223)

The following are included in cashflows from operating activities:

	Year ended December 31, 2016	Year ended December 31, 2015
Capital taxes paid in cash	-	5
Interest paid in cash	2,964	2,073

18. 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, 2016	Year ended December 31, 2015
Short-term employee benefits and director fees	1,652	1,723
Severance	-	200
Share-based compensation	204	1,401
	1,856	3,324

19. COMMITMENTS

a) 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 the 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 arrangement, but retain all third-party processing revenues generated.

b) On December 29, 2016, the Company issued 16,553,500 flow-through shares at $0.17 per share for total proceeds of $2.8 million. The Company committed to incur $2.8 million of qualifying expenditures by December 31, 2017.

c) In November of 2016, the Company full-filled its 2015 flow-through share obligation, $1.7 million of seismic processed was recorded as E&E expense on the statement of operations.

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 four years	1083
	1,341

20. 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, 2016.

(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 2016 and 2015, 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, 2016 ($)	December 31, 2015 ($)
Current (less than 90 days)	**4,777**	5,560
Past due (more than 90 days)	**763**	584
	5,540	6,144

The carrying amount of $5.5 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, alternative debt facilities and equity. As discussed in note 2(a), the Company is currently examining alternative financing opportunities in conjunction with its present credit facility. See note 11 for credit facility disclosure. The Company is required to meet certain financial commitments as described in note 11. 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, operating loan and fixed debt, 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. 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, 2017.

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, 2016, the Company had $8.7 million available under its revolving and operating loans.

At December 31, 2016, the Company was in compliance with the working capital ratio covenant. The working capital ratio was 1.9 to 1.0 (2015 – 2.7 to 1.0).

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

	December 31, 2016 ($)	December 31, 2015 ($)
Bank debt	**15,626**	52,415
Accounts payable and accrued liabilities	**7,663**	5,352
	23,289	57,767

(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 $0.5 million impact on net loss for the year ended December 31, 2016 (2015 - $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 risk-free interest rate (based on published government rates). At December 31, 2016, the Company held no active financial contracts.

At December 31, 2016, the commodity contracts had a fair value of nil (2015 – $1.6 million) and an annual unrealized loss of $1.6 million (2015 - $4.4 million gain).

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

Product	Type	Notional Volumes	Price	Index	Term
Crude oil	Swap	500 bbl/day	US$55.00/bbl	WTI-Fixed	Apr.01, 2017 to Jun.30,2017
Crude oil	Swap	250 bbl/day	US$55.00/bbl	WTI-Fixed	Jul.01,2017 to Sep.30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$3.05/GJ	AECO-Fixed	Jan.01,2018 to Mar.31,2018
Natural Gas	Swap	3,000GJ/day	Cdn$2.46/GJ	AECO-Fixed	Apr.01 to June 30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$2.48/GJ	AECO-Fixed	Jul.01 to Sept. 30,2017
Natural Gas	Swap	3,000GJ/day	Cdn$3.00/GJ	AECO-Fixed	Oct.1 to Dec. 31, 2017

(d) Capital management

The Company's capital management policy is to maintain a 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 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 annual funds flow from operations and 2) net debt. The net debt to annual 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, 2016.

Net debt to funds flow

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

($000s, except ratios)	**December 31, 2016**	December 31, 2015
Current assets (excluding commodity contracts)	**6,124**	7,488
Accounts payable and accrued liabilities (excluding commodity contracts)	**(7,663)**	(5,352)
Bank debt	**(15,626)**	(52,415)
Net debt	**(17,165)**	(50,279)

($000s, except ratios)	**Year ended December 31, 2016**	Year ended December 31, 2015
Funds flow from operations	**1,897**	18,402
Net debt to annual funds flow from operations (excluding transaction costs)	**2.7**	2.7
Net debt to annual funds flow from operations	**9.0**	2.7

As at December 31, 2016, the Company's ratio of net debt to annual funds flow from operations was 9.0 to 1 (December 31, 2015 – 2.7 to 1). The decrease in the ratio at December 31, 2016 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 and transaction costs for the period relating to the acquisition of AOS and disposition of properties, offset by a lower outstanding bank debt which was repaid with proceeds from the sale of non-core petroleum and natural gas properties, less capital expenditures and acquisitions and

the cash that was received from the arrangement with Alberta Oilsands Inc.

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 11.

Working capital ratio

Under the credit facility (note 11), 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 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). The working capital covenant at December 31, 2016 was 1.9 to 1.0 (2015 – 2.7 to 1.0). The working capital ratio increased at December 31, 2016 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.