Quarterly Report
Q2 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS
Date: August 22, 2013

Second Quarter Report – For the Three and Six Months Ended June 30, 2013

Highlights

Marquee Energy Ltd. ("Marquee Energy" or the "Company") is pleased to report its financial and operating results for the second quarter of 2013. Highlights include:

- Generated record funds flow from operations of $4.42 million for Q2-2013, an increase of $2.41 million or 120% over the same period in 2012, and an increase of $1.39 million or 46% higher than Q1-2013.
- Q2-2013 annualized debt to cash flow of 2.6 times, compared to 4.1 times at Q1-2013 and 4.7 times at Q4-2012.
- Production maintained at 2,268 BOE per day for Q2-2013, weighted 64% oil and liquids and 36% natural gas. A slight increase from Q1-2013 production of 2,266 BOE per day despite drilling no new wells during the quarter due to spring break up.
- Improved field operating netbacks to $33.49 per BOE for Q2-2013 compared to $19.34 per BOE for Q2-2012 largely due to improved commodity prices and the Company's higher oil and liquids weighting.
- Disposed of non-core oil and natural gas interests for $0.7 million with proceeds applied towards corporate debt.
- Subsequent to June 30, 2013, disposed of non-core oil and natural gas interests for proceeds of approximately $2.5 million. Proceeds were used initially to pay down corporate debt.

Area Activity Update:

Michichi Area:

During Q2-2013 the Company completed the tie-in of its second Michichi well drilled in Q1-2013. Capital spending during Q2-2013 was limited to preparation for the upcoming Q3-2013 drilling program which will consist of 6.0 gross (5.94) net horizontal wells targeting light oil in the Banff and Detrital formations. Production for the area averaged 1,026 BOE per day in Q2-2013, a 9% increase over Q1-2013, and a 78% increase over the same period in 2012.

Lloyd Area:

Marquee averaged production from the Lloyd area of 534 BBLS per day of heavy oil for Q2-2013 compared to 386 BBLs per day of heavy oil for Q2-2012. Differentials significantly improved during Q2-2013 with the Company realizing an average price of $69.33 per BBL compared to a realized price of $57.77 in Q2-2012 and $49.48 per BBL in Q1-2013. The Company increased its shipment of heavy oil by rail during the Q2-2013 to approximately 165 BBL per day which contributed to the improved realized price for Q2-2013.

Outlook

Marquee has begun its Q3-2013 drilling program and is now well positioned to further expand its light oil production base in the area. The Company expects that it should be able to realize lower development costs and quicker tie-in times by utilizing multi-well pad sites and 100% ownership of a strategic gas plant in the Michichi area. The Company also plans on drilling 3.0 gross (3.0 net) heavy oil wells in the Lloydminster area during Q3-2013.

Financial and Operational Highlights

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Financial *(000's except share amounts)*				
Oil and natural gas sales (1)	**$ 12,317**	$ 9,199	**$ 22,712**	$ 16,230
Funds flow from operations	**$ 4,420**	$ 2,011	**$ 7,448**	$ 3,283
Per share - basic and diluted	**$ 0.08**	$ 0.04	**$ 0.14**	$ 0.07
Per BOE	**$ 21.41**	$ 9.22	**$ 18.15**	$ 8.71
Net Income (loss)	**$ 484**	$ (1,414)	**$ (2,100)**	$ (3,305)
Per share - basic and diluted	**$ 0.01**	$ (0.03)	**$ (0.04)**	$ (0.07)
Capital expenditures	**$ 1,543**	$ 13,211	**$ 10,133**	$ 26,049
Corporate acquisitions	**$ -**	$ -	**$ -**	$ 19,885
Dispositions	**$ (688)**	$ -	**$ (786)**	$ -
Net debt (2)			**$ 45,735**	$ 44,176
Total Assets			**$ 163,017**	$ 176,444
Weighted average basic and diluted shares outstanding	**54,661,156**	52,697,918	**54,661,156**	48,281,179
Operational				
Daily sales volumes				
Oil *(bbls per day)*	**830**	669	**832**	610
Heavy Oil *(bbls per day)*	**534**	386	**533**	234
NGL's *(bbls per day)*	**80**	168	**69**	171
Gas *(mcf per day)*	**4,942**	7,037	**4,998**	6,406
Total *(boe per day)*	**2,268**	2,396	**2,267**	2,083
% Oil and liquids	**64%**	51%	**63%**	49%
Average realized prices				
Oil ($/bbl)	**$ 88.10**	$ 80.96	**$ 84.12**	$ 85.34
Heavy Oil ($/bbl)	**$ 69.33**	$ 57.77	**$ 59.48**	$ 58.05
NGL's ($/bbl)	**$ 56.28**	$ 61.72	**$ 61.30**	$ 59.80
Gas ($/mcf)	**$ 3.80**	$ 2.02	**$ 3.63**	$ 2.07
Netbacks				
Combined ($/boe)	**$ 59.68**	$ 42.19	**$ 55.35**	$ 42.81
Royalties ($/boe)	**$ 5.41**	$ 4.54	**$ 4.67**	$ 5.20
Opex and transportation ($/boe)	**$ 20.78**	$ 18.31	**$ 21.67**	$ 17.91
Field operating netbacks	**$ 33.49**	$ 19.34	**$ 29.01**	$ 19.70

(1) Before royalties.
(2) Net debt is calculated as currents assets less current liabilities, excluding commodity contracts and flow-through share premiums.

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 six month period ending June 30, 2013. The MD&A should be read in conjunction with the Company's unaudited condensed interim Financial Statements and related notes for the period ended June 30, 2013, as well as the audited annual Financial Statements and MD&A for the year ended December 31, 2012. The Company's condensed interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting within International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Additional information relating to Marquee, including the Company's Annual Information Form, is available on Sedar at www.sedar.com. Marquee is listed on the TSX Venture Exchange (TSX-V) under the symbol "MQL-V".

Non-GAAP Measurements

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

DESCRIPTION OF BUSINESS

Marquee Energy Ltd. is a publicly traded, Calgary-based, growth oriented, junior oil and gas company currently focused on high quality, long reserve life, oil and liquids-rich natural gas reserves. Marquee's offices are located in Calgary, Alberta. The Company's core lands and operations are in Michichi and Lloydminster with other non-core lands and operations in Alberta and Saskatchewan.

The Company looks to create and grow value through exploration and development of both its light oil & heavy oil assets and through the acquisition of strategic oil and gas properties and assets.

Revenue

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Light Oil	**$ 6,654,343**	$ 4,929,024	35%	**$12,667,863**	$9,474,383	34%
Heavy Oil	**3,369,137**	2,029,301	66%	**5,737,879**	2,472,116	132%
NGLs	**409,729**	943,529	-57%	**765,563**	1,861,033	-59%
Natural gas	**1,708,220**	1,293,535	32%	**3,282,012**	2,418,997	36%
Sulphur	**175,198**	3,575	4801%	**258,836**	3,575	7140%
Total Revenue	**$ 12,316,627**	$ 9,198,964	34%	**$22,712,153**	$16,230,104	40%

Total revenue in Q2-2013 increased to $12.3 million from $9.2 million in Q2-2012 an increase of 34%. For the six month period to June 30, 2013 revenues increased to $22.7 million from $16.2 million for the same period in 2012, an increase of 40%. The increased revenue for the three and six months ended June 30, 2013 was due to significant increases in both light and heavy oil production, combined with higher natural gas prices.

Production

	Three Months Ended		Change	Six Months Ended		Change
Production by Product	**30-Jun-13**	30-Jun-12		**30-Jun-13**	30-Jun-12	
Light Oil (bbls/d)	**830**	669	24%	**832**	610	36%
Heavy Oil (bbls/d)	**534**	386	38%	**533**	234	128%
NGLs (bbls/d)	**80**	168	-52%	**69**	171	-60%
Natural gas (mcf/d)	**4,942**	7,037	-30%	**4,998**	6,406	-22%
Total boe/d (6:1)	**2,268**	2,396	-5%	**2,267**	2,083	9%
Production split (%)						
Crude oil and NGL	**64%**	51%		**63%**	49%	
Natural gas	**36%**	49%		**37%**	51%	
Total	**100%**	100%		**100%**	100%	

Light oil increases for the three and six months ended June 30, 2013 are attributable to the significant increases in Michichi production, partially offset by the sale of Willesden Green oil and natural gas interests. Michichi oil production increased year over year by 294 BBL per day for Q2-2013 and 397 BBL per day for the six month period ended June 30, 2013. The sale of Willesden Green property, offset by increases at Michichi, accounted for all of the Q2-2013 and

six months to June 30, 2013 reduction in natural gas and NGL production. The increased heavy oil is mainly due to additional wells brought on production at Lloydminster.

Product Prices

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Benchmark prices						
WTI (US$/bbl) *(1)*	**$ 94.22**	$ 93.49	1%	**$ 94.30**	$ 98.60	-4%
US$ / C$ foreign exchange rate	**$ 1.02**	$ 1.01	1%	**$ 1.02**	$ 1.01	1%
WTI (C$/BBL)	**$ 96.44**	$ 94.42	2%	**$ 95.81**	$ 99.25	-3%
WCS Hardisty Cdn ($/bbl)	**$ 77.01**	$ 71.30	8%	**$ 70.00**	$ 76.45	-8%
AECO natural gas ($/mcf)	**$ 3.53**	$ 1.83	93%	**$ 3.37**	$ 1.99	69%
Average realized prices						
Light Oil ($/bbl)	**$ 88.10**	$ 80.96	9%	**$ 84.12**	$ 85.34	-1%
Heavy Oil ($/bbl)	**$ 69.33**	$ 57.77	20%	**$ 59.48**	$ 58.05	2%
NGLs ($/bbl)	**$ 56.28**	$ 61.72	-9%	**$ 61.30**	$ 59.80	3%
Natural gas ($/mcf)	**$ 3.80**	$ 2.02	88%	**$ 3.63**	$ 2.07	75%
Combined ($boe) *(2)*	**$ 59.68**	$ 42.19	41%	**$ 55.35**	$ 42.81	29%

(1) WTI represents the posting prices of West Texas Intermediate Oil.
(2) includes sulphur revenues.

Royalties

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Royalties	**$ 1,116,099**	$ 990,677	13%	**$ 1,916,472**	$ 1,971,081	-3%
As a percentage of revenue	**9%**	11%	-18%	**8%**	12%	-33%
Per boe (6:1)	**$ 5.41**	$ 4.54	19%	**$ 4.67**	$ 5.20	-10%

Royalties expense for the three months ended June 30, 2013 increased to $1.1 million versus $1.0 million for the same period in 2012. The increase is attributable to higher commodity prices received during Q2-2013 compared to Q2-2012. For the six month period ended June 30, 2013 royalties expense decreased slightly to $1.9 million from $2.0 million. The decrease is due to new wells coming on production at Alberta new well reduced royalty rates, partially offset by higher commodity prices and production volumes. Royalty rates as a percentage of revenue decreased to 9% and 8% respectively for the three and six months ended June 30, 2013, compared to 11% and 12% for the same periods in 2012. These reductions are mainly due to Alberta's reduced royalty rate on new wells.

Production & Operating Expense

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Operating Costs	**$ 3,246,315**	$ 3,189,066	2%	**$ 6,904,381**	$ 5,574,794	24%
Transportation Costs	**1,039,874**	802,302	30%	**1,987,207**	1,214,477	64%
	$ 4,286,189	$ 3,991,368	7%	**$ 8,891,588**	$ 6,789,271	31%
Per boe (6:1)	**$ 20.78**	$ 18.31	14%	**$ 21.67**	$ 17.91	21%

Operating and transportation costs increased to $4.3 million or $20.78 per BOE compared to $4.0 million or $18.31 per BOE for Q2-2012. The increase is mainly due to the Company's higher oil weighting in Q2-2013 versus Q2-2012, as oil production typically has higher operating costs relative to natural gas production. For the six month period ended June 30, 2013 operating and transportation costs increased to $8.9 million or $21.67 per BOE compared to $6.8 million and $17.91 per BOE. The increase was due to higher production volumes and the Company's higher oil weighting for the six month period ended June 30, 2013 versus the same period in 2012.

Field Operating Netback

per boe

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Sales	**$ 59.68**	$ 42.19	41%	**$ 55.35**	$ 42.81	29%
Royalties	**(5.41)**	(4.54)	19%	**$ (4.67)**	$ (5.20)	-10%
Opex & transportation costs	**(20.78)**	(18.31)	14%	**$ (21.67)**	$ (17.91)	21%
Field Operating Netback	**$ 33.49**	$ 19.34	73%	**$ 29.01**	$ 19.70	47%

For the quarter ended June 30, 2013 the Company recorded field operating netbacks of $33.49 per BOE compared to $19.34 per BOE for Q2-2012, an increase of 73%. These increases are due to an increase in oil production, together with higher commodity prices realized during 2013 versus 2012. For the six months ended June 30, 2013 field operating netbacks were $29.01 per BOE compared to $19.70 per BOE for the same period in 2012, an increase of 47%. The increases are due to higher commodity prices and a higher oil weighting compared to 2012.

General and Administrative (G&A) Expense

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
G&A	**$ 1,445,834**	$ 1,756,036	-18%	**$ 2,645,201**	$ 3,002,370	-12%
G&A - per boe (6:1)	**$ 7.01**	$ 8.05	-13%	**$ 6.45**	$ 7.92	-19%

G&A costs of $1.4 million or $7.01 per BOE for Q2-2013 were lower than Q2-2012 of $1.8 million and $8.05 per BOE. For the six month period ended June 30, 2013 G&A costs decreased to $2.6 million and $6.45 per BOE versus $3.0 million and $7.92 per BOE. Decreases for both the three and six month periods ending June 30, 2013 are primarily due to lower staffing levels and consulting costs.

Stock-based Compensation

As at June 30, 2013 the Company had 4,041,333 stock options and 1,679,835 warrants outstanding. The options and warrants were issued at an average exercise price of $1.27 per option and $1.59 per warrant. Stock-based compensation expense of $298,193 related to options has been recognized for the six month period ending June 30, 2013 with the offsetting amount recorded in contributed surplus.

Risk Management and Hedging Activities

As at June 30, 2013, Marquee had the following commodity contracts outstanding with a negative fair value of $0.9 million. The total realized loss on the risk management contracts for the six month period ended June 30, 2013 was $498,931.

Type	Notional Volumes	Price	Index	Term
Swap	1800 GJs/day	CAD $3.40/GJ	AECO-5A	Jan.01, 2013 to Dec.31, 2013
Swap	500 bbl/day	CAD $91.03/bbl	WTI-NYMEX	Feb.01, 2013 to Dec.31, 2013
Swap	200 bbl/day	CAD $93.58/bbl	WTI-NYMEX	Jan.01, 2013 to Dec.31, 2013
Swap	100 bbl/day	CAD ($23.50)/bbl	WCS vs NGX and Net Energy Index	Apr.01, 2013 to Dec.31, 2013
Put [1]	3000 GJs/day	CAD $3.25/GJ	AECO-7A	Jun.01, 2013 to Dec.31, 2013
Swap	2000 GJs/day	CAD $3.87/GJ	AECO-5A	Jan.01, 2014 to Mar.31, 2014
Swap	400 bbl/day	CAD $96.25/bbl	WTI-NYMEX	Jan.01, 2014 to Jun.30, 2014

(1) The put contract is subject to a monthly premium fee of approximately $12,000.

Subsequent to June 30, 2013 the Company entered into the following additional cash settled commodity contract:

Swap	500 bbl/day	CAD $103.36/bbl	WTI-NYMEX	Jul.01, 2013 to Dec.31, 2013
Swap	400 bbl/day	CAD $96.00/bbl	WTI-NYMEX	Jul.01, 2014 to Dec.31, 2014

As well subsequent to June 30, 2013, the Company cancelled the following commodity contract for net cash proceeds of $86,000:

Swap	1800 GJs/day	CAD $3.40/GJ	AECO-5A	Jan.01, 2013 to Dec.31, 2013

Finance expenses

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Accretion expense	**$ 89,276**	$ 62,736	42%	**$ 170,951**	$ 120,341	42%
Interest Expense	**651,947**	333,840	95%	**1,195,690**	497,318	140%
Finance expense	**$ 741,223**	$ 396,576	87%	**$ 1,366,641**	$ 617,659	121%
Per boe	**$ 3.59**	$ 1.82	97%	**$ 3.33**	$ 1.63	104%

Finance expense increased to $0.7 million and $3.59 per BOE for Q2-2013 versus $0.4 million and $1.82 per BOE for Q2-2012. For the six month period ended June 30, 2013 finance expense was $1.4 million and $3.33 per BOE compared to $0.6 million and $1.63 per BOE for the same period in 2012. The increase for both periods is attributable to higher bank debt levels.

Depletion and Depreciation

	Three Months Ended		Change	Six Months Ended		Change
	30-Jun-13	30-Jun-12		**30-Jun-13**	30-Jun-12	
Depletion and depreciation	**$ 4,499,584**	$ 4,252,177	6%	**$ 8,880,577**	$ 7,616,177	17%
Per boe	**$ 21.80**	$ 19.50	12%	**$ 21.64**	$ 20.09	8%

The depletion rate is calculated on proved and probable oil and natural gas reserves, taking into account the future development costs to produce the related reserves. The increase in the total depletion is the result of increases in reserves and production through acquisitions and drilling. Depletion and depreciation expense increased to $4.5 million or $21.80 per BOE for Q2-2013 from $4.3 million or $19.50 per BOE in Q2-2012. The increase in overall depletion expense is due to a lower reserve base at Q2-2013 due to 2012 year end reserve adjustments versus Q2-2012 which results in a higher depletion rate per BOE.

Taxes

For Q2-2013 a deferred tax expense of $0.2 million was recorded compared to a $0.2 million recovery recorded for the second quarter of 2012. The higher expense was due to a higher net income for Q2-2013 compared to Q2-2012. For the six month period ended June 30, 2013, the Company recorded a deferred tax recovery of $0.5 million versus $0.7 million deferred tax recovery for the same period in 2012. The slightly lower recovery was due to a lower net loss for the six months ended June 30, 2013.

The following tax pools are available to reduce future taxable income:

($ millions)

	June 30, 2013	December 31, 2012
Undepreciated capital cost	**$ 20.2**	$ 19.2
Canadian development expense	**37.5**	39.3
Canadian exploration expense	**8.5**	7.7
Canadian oil and gas property expense	**7.9**	8.9
Non-capital loss carry forward	**37.7**	34.0
Share issue costs	**2.7**	3.3
Total	**$ 114.5**	$ 112.4

Exploration and Evaluation expenditures

During the three and six month period ended June 30, 2013 the Company recorded $0.1 million and $0.5 million respectively of costs associated with expired mineral leases compared with $0.2 million for Q2-2012 and $0.2 million for the six months ended June 30, 2012.

Funds Flow from Operations

Funds flow from operations for Q2-2013 was $4.42 million or $0.08 per share compared to $2.01 million or $0.04 per share in Q2-2012. The increase in funds flow from operations was a result of higher commodity prices and higher oil and liquids weighting period over period. For the six months ended June 30, 2013 funds flow from operations was $7.45 million or $0.14 per share versus $3.28 million or $0.07 per share for the same period in 2012. The growth in funds flow from operations was due to higher production volumes, higher commodity prices, and a heavier oil and liquids weighting period over period. Funds flow from operations is a non-GAAP measure, which is defined under the heading Non-GAAP Measures.

Gain on disposition of oil and natural gas interests

For the three and six months ended June 30, 2013, the Company recorded a gain on disposition of oil and natural gas interests of $0.5 million compared to $ nil for the three and six months ended June 30, 2012. The gain was related to the disposition of non-core oil and natural gas properties.

Net Income (loss)

Net income for Q2-2013 was $0.5 million ($0.01 per share, basic and diluted) compared to net loss of $1.4 million ($0.03 per share, basic and diluted) for the prior period. The net income is mainly attributable to an increase in revenue partially offset by increased operating, finance costs and depletion expense. For the six month period ended June 30, 2013, the Company recorded a net loss of $2.1 million ($0.04 per share, basic and diluted) compared to a net loss of $3.3 million for the same period in 2012. The lower net loss was due to an increase in revenue offset by higher operating, finance costs and depletion expense.

Capital Expenditures

Capital Expenditures (1)	**Three months ended 30-Jun-13**	Three months ended 30-Jun-12	**Six months ended 30-Jun-13**	Six months ended 30-Jun-12
Land & lease	**$ 217,799**	$ 2,836,438	**$ 726,039**	$ 3,762,859
Drilling and completions	**265,225**	5,935,638	**4,838,062**	16,333,914
Equipment and facilities	**733,462**	4,234,854	**3,374,372**	5,693,782
Seismic	**158,713**	-	**842,899**	-
Dispositions	**(687,630)**	-	**(786,067)**	-
Office and other	**168,142**	204,513	**351,309**	258,392
Total capital expenditures, net	**$ 855,711**	$ 13,211,443	**$ 9,346,614**	$ 26,048,947

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

During Q2-2013 Marquee incurred capital expenditures of $0.9 million. $0.3 million was spent on survey and surface location work for the upcoming Q3-2013 drilling program at Michichi. The Company spent an additional $0.7 million on equipping and tie-in costs related to the Michichi wells drilled during Q1-2013. A further $0.2 million was spent on expanding the Company's seismic data in the Michichi area and another $0.7 million was received from the disposition of non-core oil and gas interests during Q2-2013.

The Company expects to fund the 2013 capital program from funds flow from operations, non-core asset sales and existing credit facilities.

Capital Resources and Liquidity

Credit Facility
As at June 30, 2013, the Company had a $54 million revolving operating demand loan ("operating loan") as well as a $16 million non-revolving acquisition/development demand loan ("A&D loan") with National Bank of Canada. At June 30, 2013, Marquee was in compliance with all covenants under its credit facility. Beginning February 1, 2013 the Company was required to make principal repayments on the A&D loan of $150,000 per month.

Equity
The Company is authorized to issue an unlimited number of common shares. As at June 30, 2013, there were 54,661,156 common shares outstanding, and convertible securities comprised of 4,041,333 options to acquire common shares and 1,679,835 warrants outstanding which are exercisable for an aggregate of 5,721,168 common shares. At August 22, 2013, there were 54,646,156 common shares outstanding and 4,041,333 stock options and 1,679,835 warrants outstanding which are exercisable into an aggregate of 5,721,168 common shares.

Common shares were reduced from the end of June 30, 2013, as 15,000 common shares were bought back under the Company's normal course issuer bid in July 2013. Pursuant to the issuer bid, the Company may purchase for cancellation up to 2,733,057 common shares, representing 5% of the issued and outstanding common shares of the Corporation, during the 12-month period commencing May 21, 2013. The price that the Company will pay for any shares under the normal course issuer bid will be the market price at the time of purchase. The purchases will be made through the TSX Venture Exchange.

Liquidity
The Company generally relies on operating cash flows, equity issuances and its credit facility to fund its capital requirements and provide liquidity. From time to time, the Company accesses capital markets to meet its additional financing needs and to maintain flexibility in funding its capital programs. Future liquidity depends primarily on funds flow generated from operations, the ability to draw on existing credit facilities and the ability to access debt and equity markets. Bank debt is classified as a short term liability as it is a demand loan and could potentially be paid within a year. The Company generated positive funds flow from operations for the three and six month period ended June 30, 2013.

The Company's credit facility is a demand loan and as such the bank could demand repayment at any time. Management is not aware of any indications that the bank would demand repayment within the next 12 months. Indicators considered include the absence by the Company of any breach or default of bank covenants and the renewal in May of the Company's credit facilities at the same levels in place at December 31, 2012. The Company further expects that it will have sufficient cash on hand to meet immediate obligations by actively monitoring

its credit facilities through co-ordinating payment and revenue cycles each month and an active hedging program to mitigate commodity price risk and secure cash flows.

Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Company maintains a flexible capital structure to maximize its ability to pursue oil and gas exploration opportunities and the requirement to sustain future development of the business. The Company monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Company monitors capital availability tracking its current working capital, available bank line of credit, 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 quarterly 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 bank debt.

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

The Company monitors capital based on two financial ratios: 1) net debt to annualized funds flow and 2) working capital ratio. The net debt to annualized funds flow 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 cash flows from operating activities before changes in non-cash working capital annualized. Net debt is defined as outstanding bank debt plus or minus net working capital (excluding fair value of commodity contracts and flow-through share premiums).

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 since December 31, 2012.

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

Net debt

	As at 30-Jun-13	As at 31-Dec-12	Change
Current assets	**$ 4,794,816**	$ 5,625,320	-15%
Accounts payable & accrued liabilities	**(6,058,880)**	(12,001,092)	-50%
Bank debt	**(44,470,876)**	(37,476,652)	19%
Net debt	**$ (45,734,940)**	$ (43,852,424)	4%

Net debt to annualized funds flow

	Quarter ended 30-Jun-13	Year ended 31-Dec-12	Change
Funds flow from operating activities	**$ 4,419,973**	$ 9,238,378	-52%
Annualized	**$ 17,679,892**	$ 9,238,378	91%
Net debt to annualized funds flow	**2.6**	4.7	-46%

As at June 30, 2013, the Company's ratio of net debt to funds flow was 2.6 to 1 (at December 31, 2012 – 4.7 to 1). The decrease in this ratio at June 30, 2013 was a result of an increase in funds flow from operating activities. The Company plans on reducing this ratio going forward through increased cash flows and reducing the debt through potential dispositions of non-core properties.

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

Working Capital Ratio

		As at 30-Jun-13		As at 31-Dec-12
Current assets	**$**	**4,794,816**	$	5,625,320
Undrawn available credit		**11,875,168**		19,916,926
Subtotal	**$**	**16,669,984**	$	25,542,246
Current liabilities	**$**	**6,528,342**	$	12,531,166
Working capital ratio		**2.55 to 1.00**		2.04 to 1.00

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 portion of the facility and excluding the fair value of the commodity contracts) divided by current liabilities (less the current portion of bank debt and the fair value of the commodity contracts). At June 30, 2013 the working capital ratio was 2.55 to 1.0 (December 31, 2012 – 2.04 to 1.0). The working capital ratio increased to 2.55 to 1.0 for period ending June 30, 2013 as the Company increased its funds flow from operations and disposed of non-core oil and natural gas interests.

Contractual Obligations

Marquee has contractual obligations in the normal course of business. The Company has a rental commitment relating to leased office premises.

	Amount ($)
2013	158,700
2014	262,700
2015	109,400
Total	**530,800**

On December 19, 2012, the Company issued 1,963,238 flow-through shares at $1.05 per flow-through common share for total proceeds of $2,061,400. At June 30, 2013, the Company had a remaining obligation of $1,826,000 relating to flow-through shares, to be expended no later than December 31, 2013.

Subsequent Events

Subsequent to June 30, 2013, the Company disposed of certain non-core oil and natural gas interests, including related decommissioning liabilities for net cash proceeds of approximately $2.5 million.

Off Balance Sheet Arrangements

The Company does not have any special purpose entities, nor is it party to any arrangements that would be excluded from the balance sheet.

Critical Accounting Estimates

The Corporation's financial and operating results contain estimates made by management in the following areas:

- Capital expenditures are based on estimates on projects in various stages of completion;
- Accounts receivable for revenue and accounts payable for royalties and operating costs are based on estimates for which revenue had not yet been received and costs had not yet been billed;
- Depletion and depreciation are based on estimates of proved and probable oil and natural gas reserves that the Corporation expects to recover in the future;
- Decommissioning liabilities are based on estimates of future costs and timing of expenditures;
- The future recoverable value of property, plant and equipment and exploration and evaluation assets are based on estimates of proved and probable reserves and future commodity prices and related costs;
- Deferred income taxes are based on estimates of the deductibility of certain expenditures and of deferred income tax rates;
- Stock-based compensation expense is based on estimates of the future volatility of the Corporation's stock price, among other factors; and
- Fair value of commodity contracts is based on estimates of future oil and natural gas prices and foreign exchange rates.

Management's assumptions are based on factors that, in management's opinion, are relevant and appropriate. Management's assumptions may change over time as operating conditions change.

New and Pending Accounting Standards

On January 1, 2013, Marquee adopted the following new standards and amendments which became effective for annual periods on or after January 1, 2013:

- IFRS 10, "Consolidated Financial Statements," supersedes IAS 27 "Consolidated and Separate Financial Statements". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. The adoption of this standard had no impact on the amounts recorded in Marquee's condensed interim financial statements.
- IFRS 11, "Joint Arrangements," whereby joint arrangements are classified as either joint operations or joint ventures, each with their own accounting treatment. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting. The adoption of this standard had no impact on Marquee's condensed interim financial statements.
- IFRS 12, "Disclosure of Interest in Other Entities," combines the disclosure requirements for entities that have interest in subsidiaries, join arrangements, and associates as well as consolidated structured entities. The adoption of this standard had no impact on Marquee's condensed interim financial statements.
- IFRS 13, "Fair Value Measurement," establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The adoption of this standard had no material impact on disclosures required in Marquee's condensed interim financial statements.
- IFRS 7, "Financial Instruments: Disclosures" was amended to develop common disclosure requirements for financial assets and financial liabilities that are offset in the financial statements, or that are subject to enforceable master netting arrangements or similar agreements. The adoption of this standard had no impact on Marquee's condensed interim financial statements.

The Company continues to assess the impact of adopting the future pronouncements from the IASB that have yet to be adopted, as described in the Company's 2012 annual Financial Statements.

Business Risks

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

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

The Company mitigates these business risks by:

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

Environmental, Health and Safety Risk

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

Regulation, Tax and Royalty Risk

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

Industry and Economic Factors

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

The producers of oil are entitled to negotiate sales and purchase agreements directly with oil purchasers. Most agreements are linked to global oil prices. Global oil prices are set by daily, weekly and monthly physical and financial transactions for crude oil around the world. Those prices are primarily based on worldwide 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.

International 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 Petroleum 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, available on SEDAR at www.sedar.com.

Quarterly Financial Information

The following is a summary of selected quarterly information that has been derived from the condensed interim financial statements of Marquee Energy Ltd. This summary should be read in conjunction with unaudited financial statements of Marquee as contained in the public record.

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue	$ 12,316,627	$ 10,395,525	$ 9,719,955	$ 11,455,424	$ 9,198,964	$ 7,031,140	$ 7,399,424	$ 7,107,078
Funds from operations	$ 4,419,973	$ 3,028,525	$ 2,003,281	$ 3,952,164	$ 2,010,730	$ 1,272,203	$ 810,790	$ 3,509,507
Basic & diluted ($/share) *(2)*	$ 0.08	$ 0.06	$ 0.04	$ 0.07	$ 0.04	$ 0.03	$ 0.03	$ 0.14
Net Income (loss)	$ 484,156	$ (2,584,229)	$ (2,910,912)	$ (4,313,090)	$ (1,414,200)	$ (1,891,155)	$ (26,549,003)	$ 680,384
Basic & diluted ($/share) *(2)*	$ 0.01	$ (0.05)	$ (0.05)	$ (0.08)	$ (0.03)	$ (0.04)	$ (0.89)	$ -
Capital expenditures *(1)*	$ 1,543,341	$ 8,589,340	$ 6,479,110	$ 6,874,282	$ 13,211,443	$ 12,837,504	$ 7,546,265	$ 10,210,504
Total assets	$ 163,017,270	$ 169,445,898	$ 162,645,236	$ 174,717,065	$176,443,965	$168,948,785	$139,367,181	$124,783,538
Total equity	$ 89,730,182	$ 89,049,632	$ 91,412,669	$ 92,663,597	$ 96,782,851	$ 97,605,610	$ 79,258,841	$ 76,896,858
Working capital (deficiency)	$ (47,079,474)	$ (51,223,747)	$ (44,506,926)	$ (47,506,183)	$ (44,175,979)	$ (34,493,496)	$ (26,646,699)	$ (21,647,040)
Weighted average common shares outstanding *(2)*	54,661,156	54,661,156	52,953,993	52,697,918	52,697,918	52,697,918	42,120,979	25,317,110
Average daily production								
Crude oil (bbls/d)	830	834	651	798	669	550	533	478
Heavy oil (bbls/d)	534	532	510	496	386	82	-	-
NGLs (bbls/d)	80	58	96	196	168	173	153	129
Natural gas (Mcf/d)	4,942	5,054	5,897	7,426	7,037	5,774	5,809	5,492
Total boe/d	2,268	2,266	2,240	2,728	2,396	1,767	1,654	1,522

(1) Excludes corporate and asset acquisitions and dispositions.
(2) The Company consolidated its shares on an 8:1 basis on December 5, 2011 and all figures have been restated to reflect this consolidation.

During the three month period ending June 30, 2013 the Company increased funds flow from operations to $4.4 million as the Company continued its shift to a more oil and liquids weighted Company and realized significantly higher commodity prices.

NON-GAAP MEASURES

This MD&A contains the terms “funds flow from operations” and “field operating netbacks”, and “net debt to annualized funds flow”, which do 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 funds flow from operations and field operating netbacks to analyze financial and operating performance. Marquee believes these benchmarks are key measures of profitability and overall sustainability for the Company. Both of these terms are commonly used in the oil and gas industry. Funds flow from operations and field operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flow provided by operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS.

Funds flow from operations are calculated as cash flows from operating activities less changes in non-cash working capital. Field operating netbacks are determined by deducting royalties, production expenses and transportation and selling expenses from oil and gas revenue. The Company calculates funds flow from operations per share using the same method and shares outstanding that are used in the determination of earnings per share.

	Three months ended June 30, 2013 ($)	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013 ($)**	Six months ended June 30, 2012 ($)
Cash flow from operating activities	**4,729,558**	(216,369)	**8,280,936**	1,304,886
Changes in non-cash working capital	**(309,585)**	2,227,099	**(832,438)**	1,978,046
Funds flow from operations	**4,419,973**	2,010,730	**7,448,498**	3,282,932

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).

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:

- capital expenditures;

- business strategies and objectives;
- future production levels (including the timing thereof);
- exploration and development plans;
- acquisition and disposition plans and the timing thereof;
- operating and other expenses; and
- royalty and income tax rates.

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;
- 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.

Condensed Interim

Financial Statements

For the three and six months ended June 30, 2013

(unaudited)

Marquee Energy Ltd.
Condensed Interim Balance Sheets
(amounts in Canadian dollars)

(unaudited)

	Note	June 30, 2013 ($)	December 31, 2012 ($)
Assets			
Current Assets			
Accounts receivable	3	**4,255,512**	4,951,712
Deposits and prepaid expenses		**539,304**	673,608
Total current assets		**4,794,816**	5,625,320
Exploration and evaluation assets	4	**20,973,132**	20,106,434
Property, plant and equipment	5	**137,249,322**	136,913,482
Total assets		**163,017,270**	162,645,236
Liabilities			
Current Liabilities			
Bank debt	6	**44,470,876**	37,476,652
Accounts payable and accrued liabilities		**6,058,880**	12,001,092
Flow-through share premium		**469,462**	530,074
Commodity contracts	14c	**875,072**	124,428
Total current liabilities		**51,874,290**	50,132,246
Decommissioning liabilities	7	**14,055,798**	13,291,321
Deferred tax liabilities		**7,357,000**	7,809,000
Total liabilities		**73,287,088**	71,232,567
Shareholders' Equity			
Share capital	8	**127,014,715**	127,014,715
Contributed surplus		**8,082,794**	7,665,208
Deficit		**(45,367,327)**	(43,267,254)
Total shareholders' equity		**89,730,182**	91,412,669
Total liabilities and shareholders' equity		**163,017,270**	162,645,236
Commitments	13, 14c		
Subsequent Events	14c, 15		

The accompanying notes are an integral part of the financial statements.

Approved on behalf of the Board:

(signed) "Dennis Feuchuk" (signed) "Richard Alexander"

Director *Director*

Marquee Energy Ltd.
Condensed Interim Statements of Income (loss) and Comprehensive Income (loss)
(amounts in Canadian dollars)

(unaudited)

	Note	**Three months ended June 30, 2013** ($)	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013** ($)	Six months ended June 30, 2012 ($)
Revenue					
Oil and natural gas sales		**12,316,627**	9,198,964	**22,712,153**	16,230,104
Royalties		**(1,116,099)**	(990,677)	**(1,916,472)**	(1,971,081)
Revenue, net of royalties		**11,200,528**	8,208,287	**20,795,681**	14,259,023
Gain on disposition of oil and natural gas interests	**4,5**	**515,907**	-	**501,016**	-
Realized gain/(loss) on settlement of commodity contracts		**(332,435)**	124,166	**(498,931)**	30,674
Unrealized gain (loss) on commodity contracts		**566,780**	1,342,453	**(750,644)**	1,365,246
Revenue before expenses		**11,950,780**	9,674,906	**20,047,122**	15,654,943
Expenses					
Production and operating		**3,246,315**	3,189,066	**6,904,381**	5,574,794
Transportation		**1,039,874**	802,302	**1,987,207**	1,214,477
General and administrative		**1,445,834**	1,756,036	**2,645,201**	3,002,370
Finance	**10**	**741,223**	396,576	**1,366,641**	617,659
Transaction costs		**-**	-	**-**	446,327
Stock-based compensation	**9c**	**136,698**	471,076	**298,193**	721,798
Depletion and depreciation		**4,499,584**	4,252,177	**8,880,577**	7,616,177
Exploration and evaluation expenditures	**4**	**102,195**	235,000	**539,264**	235,000
Total expenses		**11,211,723**	11,102,233	**22,621,464**	19,428,602
Income (loss) before income taxes		**739,057**	(1,427,327)	**(2,574,342)**	(3,773,659)
Income tax expense (recovery)					
Capital tax		**18,333**	201,270	**38,343**	201,270
Deferred		**236,568**	(214,397)	**(512,612)**	(669,574)
Total income tax expense (recovery)		**254,901**	(13,127)	**(474,269)**	(468,304)
Income (loss) and comprehensive income (loss) for the period		**484,156**	(1,414,200)	**(2,100,073)**	(3,305,355)
Income (loss) per share					
Basic	**11**	0.01	(0.03)	(0.04)	(0.07)
Diluted		0.01	(0.03)	(0.04)	(0.07)

The accompanying notes are an integral part of the financial statements

Marquee Energy Ltd.
Condensed Interim Statements of Changes in Shareholders' Equity
(amounts in Canadian dollars)

(unaudited)

	Note	Share Capital ($)	Contributed Surplus ($)	Deficit ($)	Total equity ($)
Balance at January 1, 2012		105,715,174	6,281,564	(32,737,897)	79,258,841
Issued on corporate acquisition		19,884,645	-	-	19,884,645
Share issue costs		(9,384)	-	-	(9,384)
Stock-based compensation related to stock options		-	954,104	-	954,104
Net loss for the period		-	-	(3,305,355)	(3,305,355)
Balance at June 30, 2012		125,590,435	7,235,668	(36,043,252)	96,782,851
Balance at January 1, 2013		127,014,715	7,665,208	(43,267,254)	91,412,669
Stock-based compensation related to stock options	**9c**	-	417,586	-	417,586
Net loss for the period		-	-	(2,100,073)	(2,100,073)
Balance at June 30, 2013		**127,014,715**	**8,082,794**	**(45,367,327)**	**89,730,182**

The accompanying notes are an integral part of the financial statements

Marquee Energy Ltd.
Condensed Interim Statements of Cash Flows
(amounts in Canadian dollars)

(unaudited)

	Note	**Three months ended June 30, 2013 ($)**	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013 ($)**	Six months ended June 30, 2012 ($)
Cash flows from operating activities					
Loss for the period		**484,156**	(1,414,200)	**(2,100,073)**	(3,305,355)
Adjustments for:					
Amortization of other liabilities		**(7,800)**	(20,175)	**(15,600)**	(51,175)
Depletion and depreciation expense		**4,499,584**	4,252,177	**8,880,577**	7,616,177
Stock based compensation expense		**136,698**	471,076	**298,193**	721,798
(Gain)/Loss on disposition of oil and natural gas interests		**(515,907)**	-	**(501,016)**	-
Unrealized (gain)/loss on commodity contracts		**(566,780)**	(1,342,453)	**750,644**	(1,365,246)
Accretion of decommissioning liabilities		**89,276**	62,736	**170,951**	120,341
Decommissioning expenditures		**(38,017)**	(19,034)	**(61,830)**	(19,034)
Exploration and evaluation expenditures		**102,195**	235,000	**539,264**	235,000
Deferred income tax (recovery)		**236,568**	(214,397)	**(512,612)**	(669,574)
Changes in non-cash working capital	**12**	**309,585**	(2,227,099)	**832,438**	(1,978,046)
Net cash from operating activities		**4,729,558**	(216,369)	**8,280,936**	1,304,886
Cash flows used in investing activities					
Exploration and evaluation asset expenditures		**(753,555)**	(3,269,942)	**(1,960,023)**	(6,780,649)
Property, plant and equipment expenditures		**(789,786)**	(9,941,501)	**(8,172,658)**	(19,268,298)
Proceeds on disposition of exploration and evaluation assets	**4**	**-**	-	**98,437**	-
Proceeds on disposition of property, plant, and equipment	**5**	**687,630**	-	**687,630**	-
Changes in non-cash working capital	**12**	**(3,168,074)**	1,153,353	**(5,928,546)**	238,790
Net cash used in investing activities		**(4,023,785)**	(12,058,090)	**(15,275,160)**	(25,810,157)
Cash flows from (used in) financing activities					
Proceeds from (repayments of) bank debt, net		**(705,773)**	11,242,002	**6,994,224**	19,696,830
Share issue costs		**-**	-	**-**	(9,384)
Net cash from financing activities		**(705,773)**	11,242,002	**6,994,224**	19,687,446
Change in cash and cash equivalents		**-**	(1,032,457)	**-**	(4,817,825)
Cash and cash equivalents, beginning of period		**-**	1,275,844	**-**	5,061,212
Cash and cash equivalents, end of period	**12**	**-**	243,387	**-**	243,387

The accompanying notes are an integral part of 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 Energy Ltd. is a publicly traded company on the TSX Venture Exchange under the symbol "MQL.V", 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. These condensed interim financial statements were approved and authorized for issuance by the Board of Directors on August 22, 2013.

2. Basis of preparation

(a) Statement of compliance

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Certain information and disclosures normally included in the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted.

The condensed interim financial statements should be read in conjunction with the Company's audited annual Financial Statements as at and for the year ended December 31, 2012 and the notes thereto.

(b) Functional and presentation currency

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

(c) Managements judgements and estimates

The timely preparation of condensed interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, as at the balance sheet date and the reported amounts of revenues and expenses during the period. Accordingly, actual results may differ from these estimates.

Estimates and judgements 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.

In preparation of these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended December 31, 2012.

(d) Significant accounting policies

The condensed interim financial statements have been prepared following the same accounting policies and methods of computation as the Company's 2012 annual Financial Statements except as noted below:

a) New Accounting policies:

On January 1, 2013, Marquee adopted the following new standards and amendments which became effective for annual periods on or after January 1, 2013:

- IFRS 10, "Consolidated Financial Statements,"
- IFRS 11, "Joint Arrangements,"
- IFRS 12, "Disclosure of Interests in Other Entities,"
- IFRS 13, "Fair Value Measurement,"
- IFRS 7, "Financial Instruments: Disclosures."

The adoption of these standards had no impact on the amounts recorded in Marquee's condensed interim financial statements.

The Company continues to assess the impact of adopting the future pronouncements from the IASB that have yet to be adopted, as described in the Company's 2012 annual Financial Statements.

3. Accounts Receivable

	June 30, 2013 ($)	December 31, 2012 ($)
Oil and natural gas marketing companies	**4,048,581**	3,523,414
Joint venture partners and other	**206,931**	1,124,580
Government agencies	**-**	303,718
Total accounts receivable	**4,255,512**	4,951,712

4. Exploration and evaluation assets

Cost	**($)**
Balance, January 1, 2012	12,580,231
Capital expenditures	9,240,941
Acquisition of exploration and evaluation assets	737,000
Transfers to property, plant and equipment	(678,103)
Exploration and evaluation costs expensed	(1,041,970)
Dispositions of exploration and evaluation assets	(731,665)
Balance, December 31, 2012	20,106,434
Capital expenditures	1,960,023
Transfers to property, plant and equipment (note 5)	(440,733)
Exploration and evaluation costs expensed	(539,264)
Dispositions of exploration and evaluation assets	(113,328)
Balance, June 30, 2013	**20,973,132**

During the six months ended June 30, 2013, the Company expensed certain costs previously capitalized as exploration and evaluation assets as the lease term of undeveloped lands expired in the amount of $539,264 (2012 – $235,000). These amounts have been included as exploration and evaluation expenditures in the statement of income (loss).

During the six months ended June 30, 2013, the Company disposed of undeveloped land for cash consideration of $98,437 (June 30, 2012 – nil) resulting in a loss on disposition of $14,891 (June 30, 2012 – nil) included in the statement of income (loss).

5. Property, plant and equipment

	Oil and natural gas interests ($)	Corporate assets ($)	Total ($)
Cost			
Balance, January 1, 2012	145,007,662	47,113	145,054,775
Capital expenditures	35,691,652	378,478	36,070,130
Corporate acquisitions	29,079,426	-	29,079,426
Dispositions	(31,635,785)	-	(31,635,785)
Acquisition of oil and natural gas properties	4,126,058	-	4,126,058
Transfers from exploration and evaluation assets	678,103	-	678,103
Change in decommissioning liabilities	1,457,458	-	1,457,458
Balance, December 31, 2012	184,404,574	425,591	184,830,165
Capital expenditures	8,289,808	2,243	8,292,051
Dispositions	(402,817)	-	(402,817)
Transfers from exploration and evaluation assets (note 4)	440,733	-	440,733
Change in decommissioning liabilities (note 7)	772,107	-	772,107
Balance, June 30, 2013	**193,504,405**	**427,834**	**193,932,239**
Accumulated depletion and depreciation and impairments:			
Balance, January 1, 2012	(37,267,307)	(47,113)	(37,314,420)
Depletion and depreciation expense	(17,395,103)	(50,158)	(17,445,261)
Dispositions	10,748,229	-	10,748,229
Impairment loss, net of impairment reversals	(3,905,231)	-	(3,905,231)
Balance, December 31, 2012	(47,819,412)	(97,271)	(47,916,683)
Depletion and depreciation expense	(8,836,083)	(44,494)	(8,880,577)
Dispositions	114,343	-	114,343
Balance, June 30, 2013	**(56,541,152)**	**(141,765)**	**(56,682,917)**
Net book value:			
At December 31, 2012	136,585,162	328,320	136,913,482
At June 30, 2013	**136,963,253**	**286,069**	**137,249,322**

During the three and six months ended June 30, 2013, the Company capitalized salaries of $168,143 (2012 - $217,000) and $349,067 (2012 - $333,000) as well as related stock based compensation expense for employees and consultants who performed services that were directly related to development activities for $59,696 (2012 - $120,365) and $119,393 (2012 – $232,306) for a six-month total of $468,460 (2012 - $565,306).

During the six months ended June 30, 2013 the Company disposed of non-core oil and natural gas interests for net cash consideration of $687,630 (June 30, 2012 – (nil) resulting in a gain on disposition of $515,907 (June 30, 2012 – nil) included in the statement of income (loss).

6. Bank Debt

At June 30, 2013, the Company has available a $54,000,000 (December 31, 2012 - $54,000,000) revolving operating demand loan ("operating loan") and an acquisition/development demand loan ("A&D loan") of up to $16,000,000 (December 31, 2012 - $16,000,000).

The operating loan can be used for general corporate purposes and capital expenditures, and bears interest at the Bank's prime rate plus an applicable margin (of 50 bps to 250 bps) determined by reference to the Company's net debt to cash flow ratio (calculated as negative working capital (excluding the fair value of any commodity contracts) over annualized trailing quarterly cash from operating activities before working capital adjustments), which adds 250 bps to the prime rate at June 30, 2013.

The A&D loan can be used to acquire producing petroleum and natural gas reserves or for the development of proved non-producing or undeveloped petroleum and natural gas reserves. The availability of the loan is subject to the Bank's normal lending parameters and is subject to a 0.5% drawdown fee. This loan bears interest at 50 bps over the interest rate of the operating loan.

The credit facility is secured by a general assignment of book debts and a $150,000,000 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 bank.

At June 30, 2013, the Company had drawn $41,220,876 on the operating loan and $3,250,000 on the A&D loan. The A&D loan has principal repayments of $150,000 per month commencing February 1, 2013. During the six months ended June 30, 2013 the Company issued a letter of guarantee for $903,956 for the Oil and Gas Orphan Fund of the Province of Saskatchewan which reduces the amount available under the operating loan.

The Company is subject to certain reporting and financial covenants that require:

1.) The Company to maintain a working capital ratio of at least 1:1 (for the purposes of the covenant, bank debt and the fair value of any commodity contracts are excluded and the unused portion of the operating loan is added to current assets); and

2.) The Company to not hedge greater than 60% of actual production volumes.

At June 30, 2013, the Company was in compliance with all reporting requirements and the working capital ratio was 2.55 to 1.0 (December 31, 2012 2.04 to 1.0).

7. Decommissioning liabilities

The Company's decommissioning liabilities are an estimate of the reclamation and abandonment costs arising from its ownership interest in oil and natural gas assets, including well sites, batteries and gathering systems. The total undiscounted cash flows required to settle the liabilities is approximately $26,026,000 at June 30, 2013 (December 31, 2012 - $21,841,000). The estimated net present value of the decommissioning liabilities was calculated using a risk-free rate between 1.23% and 2.96% at June 30, 2013 (December 31, 2012 – between 1.09% and 2.33%).

The following table summarizes changes in the decommissioning liabilities:

	June 30, 2013 ($)	December 31, 2012 ($)
Decommissioning liabilities, beginning of period	**13,291,321**	9,141,046
New liabilities recognized	**89,073**	901,015
Change in previous estimates/discount rates	**683,034**	556,443
Liabilities assumed on acquisitions	**-**	3,212,319
Liabilities settled on dispositions	**(116,751)**	(748,694)
Actual costs incurred	**(61,830)**	(22,270)
Accretion	**170,951**	251,462
Decommissioning liabilities, end of period	**14,055,798**	13,291,321

8. 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, January 1, 2012	42,120,979	105,715,174
Common shares issued on corporate acquisition	10,576,939	19,884,645
Flow-through common shares issued	1,963,238	2,061,400
Flow-through share premium	-	(530,074)
Share issue costs, net of tax effect of ($39,000)	-	(116,430)
Outstanding, December 31, 2012 and June 30, 2013	54,661,156	127,014,715

The Company commenced its normal course issuer bid May 21, 2013. Pursuant to the issuer bid, the Company may purchase up to 2,733,057 of its common shares, representing 5% of the issued and outstanding common shares of the Corporation, during the 12-month period beginning May 21, 2013. The price which the Company will pay for any shares under the normal course issuer bid will be the market price at the time of purchase. The purchases will be made through the TSX Venture Exchange. No shares have been repurchased under the issuer bid to June 30, 2013.

9. Share-based payments

a) Stock option plan

Under the Company's stock 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, January 1, 2012	2,488,445	1.73
Granted	2,370,000	1.02
Cancelled	(753,950)	1.66
Outstanding, December 31, 2012	4,104,495	1.33
Granted	185,000	0.68
Cancelled	(248,162)	1.84
Outstanding, June 30, 2013	**4,041,333**	**1.27**
Exercisable at June 30, 2013	**1,320,889**	**1.77**

(i) 2013 Transactions

During the six months ended June 30, 2013 the Company granted 185,000 options at a weighted average exercise price of $0.68 per option. The options granted vest one-quarter on each of the six, twelve, twenty-four and thirty-six month anniversaries from the grant date and have a five year term.

The following table summarizes the expiry terms and exercise prices of the Company's outstanding stock options as at June 30, 2013:

Outstanding Options	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Term (years)	Number of Stock Options Exercisable
150,089	5.44	2.5	150,089
208,744	1.70	2.5	157,050
1,277,500	1.26	3.5	667,500
100,000	1.45	3.6	50,000
245,000	1.48	3.8	122,500
70,000	0.87	4.0	35,000
235,000	0.98	4.1	58,750
1,250,000	0.94	4.3	-
320,000	0.90	4.4	80,000
185,000	0.68	4.7	-
4,041,333	**1.27**	**3.8**	**1,320,889**

b) Warrants

The Company issued warrants to directors, officers, employees and consultants of the Company.

The following table summarizes the changes in the Series II, III and IV warrants outstanding:

Series II, III and IV	Number	Weighted Average Exericse Price ($)
Outstanding at January 1, 2012	1,679,835	1.59
Granted	-	-
Outstanding at December 31, 2012	1,679,835	1.59
Granted	-	-
Outstanding at June 30, 2013	**1,679,835**	**1.59**
Exercisable at June 30, 2013	**1,544,418**	**1.48**

The following table summarizes the expiry terms and exercise prices of the Company's outstanding warrants as at June 30, 2013:

Outstanding Warrants		Exercise Price	Weighted Average Remaining Contractual Term (years)	Number of Warrants Exercisable
1,273,585	$	1.20	2.9	1,273,585
406,250	$	2.80	1.8	270,833
1,679,835	**$**	**1.59**	**2.6**	**1,544,418**

c) Stock–based compensation expense

Compensation costs related to stock options of $136,698 for the three months ended June 30, 2013 (2012 - $471,076) and $298,193 for the six months ended June 30, 2013 (June 30, 2012 - $721,798) have been expensed. As well for the three and six months ended June 30, 2013 $59,696 (2012 - $120,365) and $119,393 (2012 - $232,306) 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 during the six months ended June 30, 2013 were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	June 30, 2013	June 30, 2012
Risk-free interest rate	**1.64%**	1.57%
Expected volatility	**66%**	75%
Expected life	**5 years**	5 years
Expected dividend yield	**N/A**	N/A
Estimated forfeiture rate	**0%**	0%
Fair value per option	**$0.38**	$0.86
Stock price on grant date	**$0.68**	$1.38

Expected volatility was determined based on the Company's historical volatility and a comparison to other companies in the business of exploration for, development of production of oil and natural gas. A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period.

10. Finance expense

	Three months ended June 30, 2013 ($)	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013 ($)**	Six months ended June 30, 2012 ($)
Finance expenses				
Accretion of decommissioning liabilities (note 7)	**89,276**	62,736	**170,951**	120,341
Interest expense on bank debt	**651,947**	333,840	**1,195,690**	497,318
Finance expense	**741,223**	396,576	**1,366,641**	617,659

11. Income (loss) per share

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

Weighted Average Common Shares Outstanding	**Three months ended June 30, 2013**	Three months ended June 30, 2012	**Six months ended June 30, 2013**	Six months ended June 30, 2012
Basic	**54,661,156**	52,697,918	**54,661,156**	48,281,179
Diluted	**54,661,156**	52,697,918	**54,661,156**	48,281,179

For the three months ended June 30, 2013 all warrants and options are out of money and have been excluded from the calculation of diluted income per share. For the six months ended June 30, 2013 and the three and six months ended June 30, 2012 all warrants and options have been excluded from the calculation of diluted loss per share as they would be anti-dilutive.

12. Supplemental cash flows information

Changes in non-cash working capital is comprised of:

	Three months ended June 30, 2013 ($)	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013 ($)**	Six months ended June 30, 2012 ($)
Source/(use) of cash:				
Accounts receivable	**1,355,868**	1,887,323	**696,200**	9,681,927
Deposits and prepaid expenses	**(62,344)**	(181,432)	**134,304**	(252,053)
Accounts payable and accrued liabilities	**(4,152,013)**	(2,779,637)	**(5,926,612)**	(11,169,130)
Changes in non-cash working capital	**(2,858,489)**	(1,073,746)	**(5,096,108)**	(1,739,256)
Related to operating activities	**309,585**	(2,227,099)	**832,438**	(1,978,046)
Related to investing activities	**(3,168,074)**	1,153,353	**(5,928,546)**	238,790
Changes in non-cash working capital	**(2,858,489)**	(1,073,746)	**(5,096,108)**	(1,739,256)

The following are included in cash flows from operating activities:

	Three months ended June 30, 2012 ($)	Three months ended June 30, 2012 ($)	**Six months ended June 30, 2013 ($)**	Six months ended June 30, 2012 ($)
Capital taxes paid in cash	**18,333**	201,270	**38,343**	201,270
Interest paid in cash	**651,947**	333,840	**1,195,690**	497,318

Cash and cash equivalents at June 30, 2012 of $243,387 is comprised of bank balances in non-interest bearing accounts.

13. Commitments

a) Office Lease

The Company has rental commitments, exclusive of operating costs, related to leased office premises, as follows:

	Amount ($)
2013	158,700
2014	262,700
2015	109,400
Total	**530,800**

b) Flow-through shares

On December 19, 2012 the Company issued 1,963,238 flow-through common shares at $1.05 per flow-through common share for total proceeds of $2,061,400. At June 30, 2013, the Company had a remaining obligation of $1,826,000 relating to flow-through shares, to be expended no later than December 31, 2013.

14. 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 activities expose it to a variety of financial risks including credit risk, liquidity risk and market risk and how they arise. This note presents changes to the Company's exposure to each of the above risks, and changes to the Company's objectives, policies and processes for measuring and managing risk since December 31, 2012.

(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.

Accounts receivable

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 venture partners and government agencies and are subject to normal industry credit risk.

The Company's accounts receivable are aged as follows:

	June 30, 2013 ($)	December 31, 2012 ($)
Current (less than 90 days)	**4,240,717**	4,895,352
Past due (more than 90 days)	**14,795**	56,360
	4,255,512	4,951,712

The carrying amount of $4,255,512 of accounts receivable represents the maximum credit exposure and management believes all 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's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due. The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through cash flows from operating activities.

The Company's financial liabilities on the balance sheet consist of accounts payable and accrued liabilities and bank debt. As at June 30, 2013, the Company had $11,875,168 available under their operating loan for general corporate use and $12,750,000 available under their A&D loan for acquisition of proved oil and natural gas interests as described in note 6.

As at June 30, 2013, the Company was in compliance with all covenants and reporting requirements and the working capital ratio was 2.55 to 1.0 (December 31, 2012 – 2.04 to 1.0).

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

	June 30, 2013 ($)	December 31, 2012 ($)
Accounts payable and accrued liabilities	**6,058,880**	12,001,092
Bank debt	**44,470,876**	37,476,652
	50,529,756	49,477,744

(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 net earnings, or the value of financial instruments. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

There have been no changes to the Company's policies for managing foreign currency risk, and interest rate risk during the period ended June 30, 2013.

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 $83,000 (June 30, 2012 - $82,000) impact on net income for the three months ended June 30, 2013. The impact on net loss for the six months ended June 30, 2013 would be $166,000 (June 30, 2012 - $164,000).

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. As at June 30, 2013 the Company had the following commodity contracts outstanding:

Type	Notional Volumes	Price	Index	Term
Swap	1800 GJs/day	CAD $3.40/GJ	AECO-5A	Jan.01, 2013 to Dec.31, 2013
Swap	500 bbl/day	CAD $91.03/bbl	WTI-NYMEX	Feb.01, 2013 to Dec.31, 2013
Swap	200 bbl/day	CAD $93.58/bbl	WTI-NYMEX	Jan.01, 2013 to Dec.31, 2013
Swap	100 bbl/day	CAD ($23.50)/bbl	WCS vs NGX and Net Energy Index	Apr.01, 2013 to Dec.31, 2013
Put [1]	3000 GJs/day	CAD $3.25/GJ	AECO-7A	Jun.01, 2013 to Dec.31, 2013
Swap	2000 GJs/day	CAD $3.87/GJ	AECO-5A	Jan.01, 2014 to Mar.31, 2014
Swap	400 bbl/day	CAD $96.25/bbl	WTI-NYMEX	Jan.01, 2014 to Jun.30, 2014

(1) The put contract is subject to a monthly premium fee of approximately $12,000.

At June 30, 2013, the commodity contracts had a negative fair value of $875,072 (December 31, 2012 – negative $124,428). For the period ending June 30, 2013, a $1.00bbl/$0.10GJ increase in commodity prices would have a negative impact of $567,000 on net income.

Subsequent to June 30, 2013, the Company entered into the following cash settled commodity contracts:

Swap	500 bbl/day	CAD $103.36/bbl	WTI-NYMEX	Jul.01, 2013 to Dec.31, 2013
Swap	400 bbl/day	CAD $96.00/bbl	WTI-NYMEX	Jul.01, 2014 to Dec.31, 2014

As well subsequent to June 30, 2013, the Company cancelled the following commodity contract for net cash proceeds of $86,000:

Swap	1800 GJs/day	CAD $3.40/GJ	AECO-5A	Jan.01, 2013 to Dec.31, 2013

(d) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, maintain investor and creditor confidence and to provide a platform to create value for its shareholders. 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. There have been no changes to the Company's capital management policies during the period ended June 30, 2013.

The Company monitors capital based on two financial ratios: net debt to annualized funds flow and working capital ratio. The net debt to annualized funds flow 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, defined as outstanding bank debt plus or minus net working capital (excluding fair value of commodity contracts and flow-through share premiums), divided by cash flow from operating activities before changes in non-cash working capital. 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.

Net debt to annualized funds flow

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

	June 30, 2013 ($)	December 31, 2012 ($)
Current assets	**4,794,816**	5,625,320
Accounts payable and accrued liabilities	**(6,058,880)**	(12,001,092)
Bank debt	**(44,470,876)**	(37,476,652)
Net debt	**(45,734,940)**	(43,852,424)

	Quarter ended June 30, 2013 ($)	Year ended December 31, 2012 ($)
Funds flow from operating activities	**$4,419,973**	$9,238,378
Annualized	**$17,679,892**	$9,238,378
Net debt to annualized funds flow	**2.6**	4.7

As at June 30, 2013, the Company's ratio of net debt to funds flow was 2.6 to 1 (December 31, 2012 – 4.7 to 1). The decrease in the ratio at June 30, 2013 was a result of an increase in funds flow from operating activities. The Company plans on reducing this ratio going forward through increased cash flows and reducing debt through potential dispositions of non-core properties.

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 6.

Working capital ratio

Under the credit facility (note 6), the Company is required to maintain a working capital ratio of greater than 1:1. At June 30, 2013 the working capital ratio was 2.55 to 1.0 (December 31, 2012 – 2.04 to 1.0). The working capital ratio increased to 2.55:1 for the period ended June 30, 2013 as the Company paid down debt from the sale of non-core assets and increased cash flows during the period.

15. Subsequent events

Subsequent to June 30, 2013, the Company disposed of certain non-core oil and natural gas interests, including related decommissioning liabilities for net cash proceeds of approximately $2.5 million.