Marksmen Energy Inc.

Consolidated Financial Statements

For the three and six months ended June 30, 2016

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW

In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three and six month periods ended June 30, 2016 and 2015.

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

(Canadian $)	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash	296,457	138,987
Trade and other receivables (note 13(b))	52,409	35,511
Deposits and prepaid expenses	58,660	127,441
Total Current Assets	407,526	301,939
Exploration and evaluation (note 5)	1,951,024	1,770,835
Property and equipment (note 6)	1,732,389	1,911,457
TOTAL ASSETS	**4,090,939**	**3,984,231**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	361,832	420,369
Decommissioning liabilities (note 8)	-	228,757
Total Current Liabilities	361,832	649,126
Decommissioning liability (note 8)	385,384	124,828
Secured debentures (note 9)	1,229,499	1,226,165
	1,976,715	**2,000,119**
SHAREHOLDERS' EQUITY		
Share capital (note 10(b))	16,986,880	16,242,351
Warrants (note 10(e))	1,093,506	1,097,773
Contributed surplus (note 10(g))	3,572,837	3,461,843
Accumulated other comprehensive income	882,031	799,371
Deficit	(20,421,030)	(19,617,226)
	2,114,224	**1,984,112**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**4,090,939**	**3,984,231**

Going concern (note 1)

Approved by the Board of Directors:

Signed "Erich Boechler"	Signed "Archie Nesbitt"
Erich Boechler	Archie Nesbitt

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

Marksmen Energy Inc.

Consolidated Statements of Comprehensive Loss

For the three and six month periods ended:

(Canadian $)	Three months ended June 30, 2016	June 30, 2015	Six months Ended June 30, 2016	June 30, 2015
REVENUE				
Petroleum and natural gas sales	37,473	97,912	82,682	130,496
Royalties	(4,888)	(12,590)	(10,808)	(16,802)
	32,585	85,322	71,874	113,694
EXPENSES				
Production and operating expenses	25,126	37,925	56,101	63,004
Depletion and depreciation (note 6)	18,820	65,383	52,317	89,110
Consulting fees	56,150	71,300	86,150	140,575
Professional fees	12,509	31,051	25,873	48,689
Investor relations and conferences	26,600	48,176	35,900	72,202
Filing and listing costs	18,632	7,568	30,083	21,132
Ohio administrative costs	16,565	13,701	16,565	29,502
General and administrative	38,950	47,967	99,471	90,773
Share-based payments (note 10(d))	55,166	63,434	79,386	110,118
Loss from operations	(235,933)	(301,183)	(409,972)	(551,411)
FINANCE (EXPENSE) INCOME				
Interest expense	(37,398)	(24,103)	(74,795)	(46,603)
Foreign exchange	(23,938)	(43,363)	(299,669)	215,322
Accretion of secured debentures (note 9)	(1,666)	(3,676)	(3,334)	(7,352)
Accretion of decommissioning liabilities (note 8)	6	(1,428)	(1,077)	(2,861)
	(62,996)	(72,570)	(378,875)	158,506
OTHER INCOME				
Recovery of abandonment estimates (note 8)	2,162	-	14,957	-
NET LOSS	(301,091)	(373,753)	(803,804)	(392,905)
Other comprehensive income (loss) that may subsequently be transferred to net loss				
Currency translation adjustment	5,212	2,361	82,660 -	(12,349)
NET LOSS AND COMPREHENSIVE LOSS	(295,879)	(371,392)	(721,144)	(405,254)
Basic and diluted loss per share (note 10(h))	(0.00)	(0.01)	(0.01)	(0.01)
Weighted average number of common shares outstanding during the period	71,448,146	60,507,894	67,520,649	59,039,878

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

Marksmen Energy Inc.

Consolidated Statements of Changes in Equity

(Canadian $)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
BALANCE AS AT DECEMBER 31, 2015	16,242,351	1,097,773	3,461,843	(19,617,226)	799,371	1,984,112
Loss for the period	-	-	-	(803,804)	-	(803,804)
Translation differences on foreign subsidiaries	-	-	-	-	82,660	82,660
Private placement	665,462	-	-	-	-	665,462
Exercise of warrants	74,800	-	-	-	-	74,800
Reallocation of warrant fair value on exercise	4,267	(4,267)	-	-	-	-
Share-based payments	-	-	110,994	-	-	110,994
BALANCE AS AT JUNE 30, 2016	16,986,880	1,093,506	3,572,837	(20,421,030)	882,031	2,114,224

BALANCE AS AT DECEMBER 31, 2014	15,426,684	903,243	2,971,349	(17,719,439)	132,215	1,714,052
Loss for the period	-	-	-	(392,905)	-	(392,905)
Translation differences on foreign subsidiaries	-	-	-	-	(12,349)	(12,349)
Units issued pursuant to private placement	513,557	334,103	-	-	-	847,660
Cash share issue costs	(5,343)	(3,369)	-	-	-	(8,712)
Broker warrants issued	(2,570)	(1,637)	4,207	-	-	-
Exercise of warrants	44,999	-	-	-	-	44,999
Reallocation of warrant fair value on exercise	2,567	(2,567)	-	-	-	-
Warrants issued pursuant to secured debenture	-	26,946	-	-	-	26,946
Share-based payments	-	-	196,182	-	-	196,182
Reallocation of warrant fair value on expiry	-	(104,843)	104,843	-	-	-
BALANCE AS AT JUNE 30, 2015	15,979,894	1,151,876	3,276,581	(18,112,344)	119,866	2,415,873

Marksmen Energy Inc.

Consolidated Statements of Cash Flows

For the six month periods ended:

(Canadian $)	June 30, 2016	June 30, 2015
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	(803,804)	(392,905)
Abandonment costs paid	5,099	-
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation	52,317	89,110
Accretion of decommissioning liabilities	1,077	2,861
Accretion of secured debentures	3,334	7,352
Recovery of abandonment estimates	14,957	-
Share-based payments	79,386	110,118
Change in trade and other receivables	(62,606)	67,999
Change in deposits and prepaid expenses	68,212	(28,771)
Change in accounts payable and accrued liabilities	37,483	(69,907)
CASH FLOW USED IN OPERATING ACTIVITIES	**(604,546)**	**(214,143)**
INVESTING ACTIVITIES		
Expenditures on property and equipment	19,403	(236,028)
Expenditures on exploration and evaluation	(242,423)	(504,882)
Change in non-cash working capital	(57,667)	34,655
CASH FLOW USED IN INVESTING ACTIVITIES	**(280,687)**	**(706,255)**
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs	665,462	838,948
Proceeds from issuance of secured debenture	-	500,000
Proceeds from exercise of warrants	74,800	44,999
Change in non-cash working capital	-	-
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	**740,262**	**1,383,947**
Foreign exchange effect on cash and cash equivalents	302,440	(203,290)
Increase in cash	157,470	260,259
Cash, beginning of period	138,987	96,150
CASH, END OF PERIOD	**296,457**	**356,409**

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

1 Reporting entity

Marksmen Energy Inc. (the "Company") is involved in the exploration for, development of and production of petroleum and natural gas properties in Ohio and Western Canada. The Company was incorporated in Canada under the laws of the Alberta Business Corporations Act on March 14, 1997. The Company is listed on the TSX Venture Exchange under the symbol "MAH.V" and on the OTCQB Venture Marketplace under the symbol "MKSEF". The Company's registered office is located at Suite 1600 Dome Tower, 333-7th Avenue SW, Calgary, Alberta, Canada, T2P 2Z1.

At June 30, 2016, the Company had not yet achieved profitable operations, had accumulated a deficit of $20,421,030 since its inception (December 31, 2015 - $19,617,226), working capital of $45,694 (December 31, 2015 – deficit of $347,187), negative cash flow from operations of $604,545 (December 31, 2015 - $773,863) and expects to incur further losses in the development of its business. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing, or generating profitable operations in the future. The Company successfully closed a private placement during the six months ended June 30, 2016 (note 10(b)). Management is committed to raising additional capital to achieve its intended development, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which have been distressed, particularly for junior petroleum and natural gas companies. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

2 Basis of presentation

a) Statement of compliance:

The interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – *"Interim Financial Reporting"* as issued by the International Accounting Standards Board ("IASB") using the accounting policies and methods of computation disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 and exclude certain disclosures required to be included in annual consolidated financial statements.

These financial statements were authorized for issue by the Board of Directors on August 29, 2016.

b) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Marksmen Energy USA, Inc. The subsidiary is fully consolidated from the date of acquisition, being the date of which the Company obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. Any balances, unrealized gains and losses, or income and expenses from intra-company transactions are fully eliminated upon consolidation.

c) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

d) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency. Marksmen Energy USA Inc.'s functional currency is United States Dollars.

e) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual consolidated financial statements as at and for the year ended December 31, 2015.

3 Recent accounting pronouncements

The Company has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company. The Company has not quantified the effect of the following:

IFRS 15 – “Revenue from contracts with customers”, replaces International Accounting Standard 11, “Construction Contracts” (“IAS 11”), IAS 18, “Revenue” (“IAS 18”), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. This IFRS becomes effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the consolidated financial statements.

IFRS 9 – “Financial Instruments”, which is the result of the first phase of the IASB’s project to replace IAS 39 – “Financial Instruments: Recognition and Measurement”. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. This IFRS becomes effective for periods beginning on or after January 1, 2018. The Company has not yet begun the process of assessing the impact of the new standard on the consolidated financial statements.

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

4 Equity investment

During the year ended December 31, 2012, the Company's share of the US PrivateCo. losses were in excess of Company's interest and accordingly the investment was reduced to $nil. The Company has discontinued recognizing its share of any further losses.

The Company has suspended business negotiations with a US Private Company ("US PrivateCo.") initiated in the year ended December 31, 2011, and as at December 31, 2015 and June 30, 2016, no assurance can be given that any agreement with US PrivateCo. will be reached with respect to either new business terms or moving forward with the necessary technical work to produce the properties. The impact to the Company is not known at this time.

5 Exploration and evaluation

	As at June 30, 2016	As at December 31, 2015
Balance, beginning of period	1,770,835	924,800
Expenditures on exploration and evaluation assets	274,031	706,566
Foreign exchange translation	(93,842)	139,469
BALANCE, END OF PERIOD	**1,951,024**	**1,770,835**

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at June 30, 2016, the Company has $1,951,024 in E&E assets (December 31, 2015 - $1,770,835). The additions represent the acquisition of undeveloped land and seismic activity within Ohio, USA.

6 Property and equipment

	As at June 30, 2016	As at December 31, 2015
Petroleum and natural gas assets	3,332,524	3,535,089
Corporate assets	20,385	19,683
Property and equipment at cost	3,352,908	3,554,772
Accumulated depletion and depreciation	(1,620,519)	(1,643,315)
PROPERTY AND EQUIPMENT NET CARRYING AMOUNT	**1,732,389**	**1,911,457**

Petroleum and natural gas assets

COST	As at June 30, 2016	As at December 31, 2015
Balance, beginning of period	3,535,089	2,487,357
Additions	(20,105)	713,583
Change in estimate of decommissioning liabilities (note 8)	18,418	(52,914)
Foreign currency translation	(200,878)	387,063
BALANCE, END OF PERIOD	**3,332,524**	**3,535,089**
ACCUMULATED DEPLETION		
Balance, beginning of period	(1,627,177)	(621,952)
Depletion	(51,720)	(263,879)
Impairment loss	-	(640,351)
Foreign currency translation	75,110	(100,995)
BALANCE, END OF PERIOD	(1,603,787)	(1,627,177)
NET CARRYING AMOUNT, END OF PERIOD	**1,728,738**	**1,907,912**

The Company's Canadian petroleum and natural gas assets continued to be shut-in during the three and six months ended June 30, 2016.

Corporate assets

COST	As at June 30, 2016	As at December 31, 2015
Balance, beginning of period	19,683	18,622
Additions	702	1,061
BALANCE, END OF PERIOD	**20,385**	**19,683**
ACCUMULATED DEPRECIATION		
Balance, beginning of period	(16,138)	(14,943)
Depreciation	(597)	(1,195)
BALANCE, END OF PERIOD	(16,735)	(16,138)
NET CARRYING AMOUNT, END OF PERIOD	**3,650**	**3,545**

7 Impairment loss

As a result of a decrease in forecast oil and natural gas prices, an indication of potential impairment was identified. Recoverable amounts for the Company's oil and gas assets were estimated based on FVLCD, calculated using the present value of the CGUs' expected future cash flows. The primary source of cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator. The projected cash flows reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates. Cash flow forecasts are also based on past experience, historical trends and an evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. The discount rate applied in the impairment calculation as at December 31, 2015 was 10% applied to proven reserves and 15% applied to probable reserves. The FVLCD estimates are categorized as level 3 according to the IFRS 13 fair value hierarchy. Based on the assessment at December 31, 2015, the carrying value of the Company's Ohio, USA CGU exceeded its recoverable value by $632,358, and accordingly, an impairment for this amount was recorded. The discount rate applied is the most sensitive assumption in the calculation of impairment. If the discount rate were increased by 5%, the impairment loss would increase by approximately $315,833. There was no additional impairment during the first six month ended June 30, 2016 based on the FVLCD calculation.

During the year ended December 31, 2015, the Company continued to impair its oil and natural gas assets in its Alder Flats CGU to $nil resulting in an impairment charge of $7,993. There was no additional impairment during the first six month ended June 30, 2016 based on the FVLCD calculation.

8 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $385,384 as at June 30, 2016 (December 31, 2015 - $353,585), of which $nil is current (December 31, 2015 - $228,757). During the six months ended June 30, 2016, the Company revised its expected reclamation date of its Canadian wells from 1 year to 2 years, and as such the liability is no longer considered current. The total undiscounted amount of estimated future cash flows is $398,241 (December 31, 2015 - $359,808). These payments are expected to be made over the next 9 years. The obligations have been calculated using an inflation rate of 2% (December 31, 2015 – 2%) and a discount factor, being the risk-free rate related to the liability, of 0.52% (December 31, 2015 – 0.48% - 2.03%). The obligations on the US properties have been calculated using an inflation rate of 2% (December 31, 2015 – 2%) and a discount factor, being the risk free rate related to the liability of 0.52% - 1.63% (December 31, 2015 – 1.31% - 2.18%).

During the year ended December 31, 2015, the Company completed the abandonment of substantially all of its Canadian petroleum and natural gas assets. Reclamation of these assets has not yet occurred. The Company recorded an abandonment recovery of $68,298 as the estimated capitalized abandonment costs were previously impaired. During the six months ended June 30, 2016, the Company recovered an additional $14,957 of abandonment costs. The respective gains are included in the "change in estimates" line items below.

	As at June 30, 2016	As at December 31, 2015
Balance, beginning of period	353,585	472,270
Liabilities incurred	16,289	10,173
Change in estimate	22,185	(63,086)
Abandonment costs	-	(87,622)
Accretion expense	1,077	5,767
Foreign currency translation	(7,753)	16,083
Less: current portion	-	(228,757)
BALANCE, END OF PERIOD	**385,384**	**124,828**

9 Secured debenture

On June 28, 2013, the Company closed a secured debenture (the "Debenture") for gross proceeds of $750,000. The funds received under the Debenture were used by the Company to conduct the initial 3D Seismic program and to fund the work required to the drilling stage on the Houghton Project in Ohio, USA. The Debenture bears interest of 12% per annum, the first interest payment was due and paid by the Company on June 28, 2014, and each subsequent interest payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2014. The Company has fulfilled the required interest payments at June 30, 2016. As of June 30, 2016, the Company has incurred $270,627 of interest expense (December 31, 2015 - $225,750), of which $44,877 was incurred during the six months ended June 30, 2016 (June 30, 2015 - $44,630). Pursuant to the original Debenture agreement (the "Original Agreement"), the Debenture matured on January 31, 2016. However, on June 19, 2015, the terms of the Original Agreement were revised to extend the maturity date until December 31, 2018 and to extend the expiry date of the share purchase warrants until June 28, 2018. The net present value of the future cash flows under the extended term were not greater than 10% of the net present value of the remaining cash flows immediately prior to the extension. The extension does not represent a significant modification to the original instrument. All other terms and conditions remain unchanged.

The Company may, at any time, repay the Debenture in full and any accrued and unpaid interest without notice or penalty. If the Company is in default of the requirements included in the

Debenture agreement, the Debenture holder may demand repayment of the Debenture or accelerate the date for payment. Security for the Debenture includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

Pursuant to the Debenture, the Company issued to the Debenture holder 2,666,667 share purchase warrants. Each warrant is exercisable into one common share of the Company at a price of $0.17 per common share until the expiry date of the earlier of: (i) two months following payment in full of the Debenture; or (ii) June 30, 2017 (which was extended until June 28, 2018). During the six months ended June 30, 2016, 440,000 of the warrants were exercised (note 10(e)) (December 31, 2015 - 264,700).

The Company valued the warrant feature of the debenture using the residual method (the "Residual Method"). Using this method, the fair value of the debt component was calculated using an estimated market rate for similar debt without warrants or a conversion feature. The liability component was $715,519 and the equity component was $34,481, which net of tax is $25,861.

On June 19, 2015, the Company closed an additional secured debenture (the "Debenture B") for gross proceeds of $500,000. The funds received under the Debenture B were deployed towards the continued developed of the Company's projects. The Debenture B bears interest of 12% per annum, with the first interest payment due and payable by the Company on December 31, 2015, with each subsequent interest payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2015. The Company has fulfilled the required interest payments at June 30, 2016. As of June 30, 2016, the Company has incurred $63,136 (December 31, 2015 - $32,219) of interest expense, of which $29,917 was incurred during the six months ended June 30, 2016 (June 30, 2015 - $1,973). The Debenture B matures on December 31, 2018. The Company may, at any time, repay the Debenture B in full and any accrued and unpaid interest without notice or penalty. If the Company is in default of the requirements included in the Debenture B agreement, the Debenture B holder may demand repayment of the Debenture B or accelerate the date for payment. Security for the Debenture B includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

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

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

	Secured Debentures
Balance, December 31, 2014	734,770
Issue of secured debenture	500,000
Issue of debenture warrants (note 10(e))	(26,946)
Accretion of secured debentures	18,341
Balance, December 31, 2015	1,226,165
Accretion of secured debentures	3,334
Balance, June 30, 2016	**1,229,499**

10 Share capital

a) Authorized

Unlimited number of common shares with voting rights, at par value
Unlimited number of preferred shares, issuable in series, at par value

b) Issued

	Number	Amount
Balance, December 31, 2014	55,455,718	15,426,684
Shares issued pursuant to private placement (i)	5,001,967	517,460
Shares issued pursuant to private placement (ii)	1,300,767	143,962
Shares issued pursuant to private placement (iii)	1,570,000	125,600
Share issue costs (vi)	-	(18,921)
Exercise of warrants (note 10(e))	264,700	44,999
Reallocation of warrant fair value on exercise	-	2,567
Balance, December 31, 2015	**63,593,152**	**16,242,351**
Shares issued pursuant to private placement (v)	13,707,280	688,364
Share issue costs (v)	-	(22,902)
Exercise of warrants (note 10(e))	440,000	74,800
Reallocation of warrant fair value on exercise	-	4,267
Balance, June 30, 2016	**77,740,432**	**16,986,880**

i) On March 30, 2015, the Company completed a private placement, issuing 5,001,967 units (“Unit C”) at $0.15 per Unit C for aggregate proceeds of $750,295. Each Unit C consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.25 per common share for a period of 24 months from issuance, which was valued at $232,813 (note 10(e)(i)).

ii) On June 25, 2015 and August 4, 2015, the Company completed the first and second closing of a larger private placement, issuing 649,100 units and 651,667 units ("Unit D"), respectively, at $0.15 per Unit D for aggregate proceeds of $195,116. Each Unit D consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for $0.25 per common share for a period of 24 months from issuance, which was valued at an aggregate of $51,154 (note 10(e)(ii)).

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

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

v) On May 31, 2016, the Company completed a private placement, issuing 13,607,280 common shares at $0.05 per common share for aggregate proceeds of $680,364. In connection with the private placement, the Company incurred cash share issue costs of $22,902. In addition, the Company adjusted the December 30, 2015 private placement (iii) to include an issuance of 100,000 common shares at $0.08 per common share for aggregate proceeds of $8,000.

c) Stock options

The Company has established a stock option plan (the "Plan") for the benefit of the directors, officers, employees and consultants of the Company. The maximum number of options available under the Plan is limited to 10% of the issued and outstanding common shares on the date the option is granted, with the maximum number of options available to an individual director, officer, employee or consultant not exceeding 5% or 2%, respectively, of the issued and outstanding shares. Such options will be exercisable for a period of up to 5 years from the date of grant, at an exercise price and vesting period as determined by the Board of Directors.

During the six months ended June 30, 2016, the Company granted 1,735,000 stock options, 515,000 stock options expired unexercised and there were no stock options exercised or cancelled. A summary of the status of the Company's stock option plan and changes during the period is as follows:

	As at June 30, 2016		As at December 31, 2015	
	Number	Weighted Average Exercise Price ($)	Number	Weighted Average Exercise Price ($)
Balance, beginning of the period	6,201,667	0.22	5,289,667	0.26
Granted	1,735,000	0.05	1,590,000	0.10
Expired	(515,000)	0.30	(678,000)	(0.20)
BALANCE, END OF PERIOD	**7,421,667**	**0.18**	**6,201,667**	**0.22**

Exercise price ($)	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price ($)	Options exercisable	Weighted average exercise price ($)
0.00 - 0.09	2,775,000	4.71	0.06	925,000	0.08
0.10 - 0.19	2,746,667	2.26	0.12	2,563,333	0.15
0.30 - 0.39	-	-	-	-	-
0.40 - 0.49	1,900,000	3.14	0.40	1,266,667	0.40

As at June 30, 2016, the Company had 4,755,000 exercisable options and 2,666,667 options granted but not yet vested (December 31, 2015 – 4,288,333 and 1,913,334, respectively). The weighted average exercise price of the exercisable options is $0.20 (December 31, 2015 - $0.23).

d) Share-based payment

During the three and six month period ended June 30, 2016, the Company granted 1,735,000 stock options (December 31, 2015 – 1,590,000). The options granted are exercisable at $0.05 per option and expire 5 years after the grant date. 1/3 of the stock options vest immediately and the remaining stock options granted vest 1/3 on each of the first and second anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model.

	As at June 30, 2016
Risk-free interest rate	0.63%
Expected life	2.5 years
Expected volatility	263.02%
Fair value per option	$0.05
Forfeiture rate	20.08%
Dividend yield	-

Share-based payments expense recognized during the three and six months ended June 30, 2016 was $72,444 and $110,994 (June 30, 2015 - $113,397 and $196,182, respectively), of which $55,166 and $79,386, respectively, has been recorded in the consolidated statement of comprehensive loss (June 30, 2015 - $63,434 and $110,118, respectively) and $17,278 and $31,608, respectively, has been capitalized as exploration and evaluation (June 30, 2015 - $49,963 and $86,064, respectively), all of which has been recorded as an offsetting credit to contributed surplus.

e) Warrants

	Number of Warrants	Weighted Average Exercise Price ($)	Amount($)	Weighted Average Expiry Date
Balance, December 31, 2014	7,995,540	0.23	903,243	1.19
Warrants issued pursuant to private placement (note 10(b)(i))	2,500,984	0.25	232,835	0.90
Warrants issued pursuant to private placement (note 10(b)(ii))	650,384	0.25	51,154	1.24
Warrants issued pursuant to secured debenture (note 9)	1,777,778	0.25	26,946	2.75
Share issue costs (note 10(b)(vi))	-	-	(8,994)	-
Exercise of warrants	(264,700)	(0.17)	(2,567)	-
Warrants expired unexercised	(950,885)	(0.30)	(104,843)	-
Balance, December 31, 2015	**11,709,100**	**0.23**	**1,097,773**	**1.49**
Exercise of warrants	(440,000)	(0.17)	(4,267)	-
Balance, June 30, 2016	**11,269,100**	**0.23**	**1,093,506**	**1.49**

(i) As part of the units issued on March 30, 2015 (note 10(b)(i)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.25 for a period of 24 months from the date of closing. A value of $232,835 ($0.09 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placements, share issue costs totaling $3,820 were allocated to warrants (note 10(b)(vi)).

(ii) As part of the units issued on June 25, 2015 and August 4, 2015 (note 11(b)(ii)); subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.25 for a period of 24 months from the date of closing. A value of $51,154 ($0.08 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placements, share issue costs totaling $5,174 were allocated to warrants (note 11(b)(vi)).

The fair value of the warrants issued during the year ended December 31, 2015 were estimated as at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the calculation are noted below:

	December 31, 2015
Risk-free interest rate	0.44%
Expected life	2.00 years
Expected volatility	158.18%
Fair value per warrant	$0.09

On March 16, 2016, approval was received to extend the expiry date of 1,528,625 and 2,449,363 from March 24, 2016 and April 28, 2016, respectively, to April 28, 2017. All other terms and conditions remained the same. On June 19, 2015, approval was received to extend the expiry date of 2,399,667 share purchase warrants from February 28, 2016 to June 28, 2018 (note 9). All other terms and conditions will remain the same.

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price ($)	Amount($)	Weighted Average Expiry Date
Balance, December 31, 2014	119,720	0.16	17,381	0.28
Broker warrants issued on private placement (note 10(f)(i))	58,080	0.15	4,207	0.29
Broker warrants expired unexercised	(119,720)	0.16	(17,381)	(0.28)
Balance, December 31, 2015	58,080	0.15	4,207	0.29
Broker warrants expired unexercised	(58,080)	(0.15)	(4,207)	(0.29)
Balance, June 30, 2016	-	-	-	-

(i) During the year ended December 31, 2015, the Company issued 58,080 (note 11(b)(vi)) broker warrants to those who facilitated the private placements. Each broker warrant granted entitles the holder to purchase one common share at a price of $0.15 per common share for a period of 1 year from the date of closing. The broker warrants were valued at $4,207 and recorded as share issue costs.

The fair value of the Broker Warrants granted during the year ended December 31, 2015 were estimated as at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

	December 31, 2015
Risk-free interest rate	0.49%
Expected life	1.00 year
Expected volatility	149.86%
Fair value per broker warrant	$0.07

As at June 30, 2016, all broker warrants have expired unexercised.

g) Contributed surplus

	As at June 30, 2016	As at December 31, 2015
Balance, beginning of the period	3,461,843	2,971,349
Share-based payments (note 10(d))	79,386	230,001
Capitalized share-based payments (note 10(d))	31,608	158,717
Expiry of warrants (note 10(e))	-	104,843
Broker warrants (note 10(f))	-	4,207
Deferred tax liability on Debenture B (note 9)	-	(7,275)
BALANCE, END OF PERIOD	**3,572,837**	**3,461,843**

h) Per share data

Basic loss per share is calculated based on the weighted average number of shares outstanding during the period. All warrants, broker warrants and stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

11 Commitments

The Alberta Energy Regulator ("AER") has an industry wide program to measure all operating companies Licensee Liability Rating ("LLR"). The LLR program is established by the AER to prevent the costs to abandon, remediate and reclaim a well or facility from becoming the responsibility of the public of Alberta. The program measures the ratio of deemed well and facility assets divided by deemed well and facility Liabilities and if the ratio is below 1.0 a deposit is required.

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

At June 30, 2016, included in deposits and prepaid expenses is an amount of $39,284 on deposit with the AER associated with the Company's operated wells in Alberta (December 31, 2015 - $106,681). The Company continues to work with the AER to reduce its overall deemed liabilities and to improve its LLR ratio.

12 Related party transactions

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

During the three months ended June 30, 2016:

a) An aggregate of $56,150 (June 30, 2015 - $76,300) in consulting fees were paid to professional corporation owned by a director and officer of the Company for compensation as CEO of the Company as well as for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of $18,304 USD (June 30, 2015 - $42,288 USD) in consulting fees and related costs were paid to a director and officer, Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

b) Aggregate legal fees of $27,140 (June 30, 2015 - $15,424) were charged by a law firm in which a director of the Company is a partner, of which $4,238 (June 30, 2015 - $15,424) were expensed as general and administrative expenses and $22,902 (June 30, 2015 - $nil) were charged to share capital as share issue costs.

During the six months ended June 30, 2016:

c) An aggregate of $86,150 (June 30, 2015 - $136,075) in consulting fees were paid to professional corporation owned by a director and officer of the Company for compensation as CEO of the Company as well as for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of $23,946 USD (June 30, 2015 - $87,811 USD) in consulting fees and related costs were paid to a director and officer, Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

d) Aggregate legal fees of $32,141 (June 30, 2015 - $21,569) were charged by a law firm in which a director of the Company is a partner, of which $9,239 (June 30, 2015 - $21,569) were expensed as general and administrative expenses and $22,902 (June 30, 2015 - $nil) were charged to share capital as share issue costs.

e) The Company has trade and other receivables related to prior years of $90,786 (December 31, 2015 - $90,786) owing from 1528810 Alberta Ltd in which there are two common directors between the Company and the 1528810 Alberta Ltd. This amount has been offset in its entirety as an allowance for doubtful accounts.

f) As at June 30, 2016, the Company has accounts payable and accrued liabilities totaling $79,558 (December 31, 2015 – $133,064) owing to related parties relating to the above transactions.

All of the above related party transactions are in the normal course of operations.

13 Financial risk management

(a) Fair values:
The fair value of cash, trade and other receivables, accounts payable and accrued liabilities approximates their carrying value due to their short term nature. The fair value of the debenture was calculated using an estimate of the market rate for similar debentures without warrants, which is a level 2 input.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.
At June 30, 2016, the Company’s cash has been subject to Level 1 valuation.

(b) Credit risk:
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of cash and trade and other receivables represents the maximum credit exposure.

As at June 30, 2016, the Company had cash of $296,457 (December 31, 2015 - $138,987), of which $234,362 (December 31, 2015 - $133,545) was deposited with two major financial institution and $62,095 (December 31, 2015 - $5,442) is held in trust by the Company’s legal counsel. Management has assessed the risk of loss to be minimal.

As at June 30, 2016, the Company’s accounts receivable consisted of $41,661 (December 31, 2015 - $28,652) from petroleum and natural gas companies and $10,748 (December 31, 2015 - $6,859) related to goods and service tax owing from the Government of Canada. The Company is not subject to concentration risk. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

The Company's trade and other receivables have been aged as follows:

Days outstanding	As at June 30, 2016	As at December 31, 2015
0-30 days	18,182	6,859
31-60 days	-	16,197
61-90 days	2,484	5,289
Greater than 90 days	133,665	110,925
TOTAL	**154,331**	**139,270**

At June 30, 2016, the Company has an allowance for $101,922 (December 31, 2015 - $103,759) of trade and other receivables that were deemed to be uncollectible, all of which are included in the greater than 90 days category.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At June 30, 2016, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $361,832 (December 31, 2015 - $420,369), which are all due over the next twelve months. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities. During the year ended December 31, 2015, certain creditors forgave $68,883 of liabilities.

The Company prepares annual capital expenditure budgets, which are regularly updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

(d) Market risk:

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks. If in the future management determines market risk warrants the use of financial derivatives or physical delivery sales contracts any such transactions would be approved by the Board of Directors.

(i) Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as oil and natural gas prices are impacted by world economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when deemed appropriate. The Company did not have any commodity price contracts in place as at or during the periods ended June 30, 2016 and June 30, 2015.

(ii) Foreign currency risk:

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company regularly converts Canadian currency into United States currency to provide funds for its Ohio based projects. Although the Company currently does not sell any oil or natural gas in foreign currencies, the underlying market prices in Canada for oil and natural gas fluctuate with changes in the exchange rate between the Canadian and the United States dollar, thus exposing the Company to foreign currency exchange risk. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash during the period would impact on the Company's loss by approximately $16,000.

As at June 30, 2016 and June 30, 2015 the Company had no forward exchange rate contracts in place.

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have short or long term interest bearing debt with variable interest rates and therefore is only exposed to interest rate risk through its cash holdings.

The Company has no interest rate swaps or financial contracts in place as at or during the periods ended June 30, 2016 and June 30, 2015.

14 Segmented information

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

Geographical segmentation is as follows:

			As at June 30, 2016
	Canada	Unites States	Total
Petroleum and natural gas sales	-	82,682	82,682
Depletion and depreciation	597	51,720	52,317
Net loss	776,232	27,572	803,804
Exploration and evaluation	-	1,951,024	1,951,024
Property, plant and equipment	3,650	1,728,740	1,732,389
Total liabilities	1,679,621	297,094	1,976,715

			As at June 30, 2015
	Canada	Unites States	Total
Petroleum and natural gas sales	-	130,496	130,496
Depletion and depreciation	598	88,512	89,110
Net loss	318,329	74,576	392,905
Exploration and evaluation	-	1,485,059	1,485,059
Property, plant and equipment	9,362	2,245,963	2,255,325
Total liabilities	1,678,653	252,896	1,931,549

15 Capital management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business.

The Company actively manages its capital structure which includes shareholders' equity. In order to maintain or adjust its capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of current assets divided by current liabilities. At June 30, 2016, the working capital ratio was 1.13:1 (December 31, 2015 – 0.47:1). The Board of Directors has not established quantitative return on capital criteria for management, but rather promotes conservative capital management. The Company is not subject to any externally imposed capital requirements.