Marksmen Energy Inc.

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

(Audited)

Independent Auditor's Report

To the Shareholders of Marksmen Energy Inc.:

Opinion

We have audited the consolidated financial statements of Marksmen Energy Inc. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company had not yet achieved profitable operations, had accumulated a deficit of $20,970,411 since its inception, and had a negative working capital of $1,594,348. As stated in Note 1, these events or conditions, along with other matters, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

MNP LLP

Calgary, Alberta
April 25, 2019

Chartered Professional Accountants

MNP

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

(Canadian $)	December 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash	107,685	801,097
Trade and other receivables (note 14(b))	88,779	526,179
Deposits and prepaid expenses (note 15)	62,140	59,858
Total Current Assets	258,604	1,387,134
Exploration and evaluation assets (note 6)	4,545,574	1,736,033
Property and equipment (note 7)	2,076,848	2,223,110
TOTAL ASSETS	**6,881,026**	**5,346,277**
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	602,952	515,871
Secured debentures (note 10)	1,250,000	1,240,959
Total Current Liabilities	1,852,952	1,756,830
Decommissioning liabilities (note 9)	389,000	357,466
	2,241,952	**2,114,296**
SHAREHOLDERS' EQUITY		
Share capital (note 11(b))	18,679,181	17,687,906
Warrants (note 11(e))	792,170	510,698
Contributed surplus (note 11(g))	5,295,078	4,854,074
Accumulated other comprehensive income	843,056	424,617
Deficit	(20,970,411)	(20,245,314)
	4,639,074	**3,231,981**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**6,881,026**	**5,346,277**

Going concern (note 1)
Commitments (note 15)
Subsequent events (note 10 and 19)

Approved by the Board of Directors:

Signed “Donald D. Jones”	Signed “Archibald J. Nesbitt”
Donald D. Jones	Archibald Nesbitt

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

Marksmen Energy Inc.

Consolidated Statements of Comprehensive Loss

For the years ended:

(Canadian $)	December 31, 2018	December 31, 2017
REVENUE		
Petroleum and natural gas sales (note 18)	1,190,013	1,165,517
Royalties	(155,207)	(152,104)
	1,034,806	1,013,413
EXPENSES		
Production and operating expenses	112,734	131,088
Depletion and depreciation (note 7)	322,850	431,756
General and administrative	836,524	719,443
Share-based payments (note 11(d))	328,022	142,485
Loss from operations	(565,324)	(411,359)
FINANCE EXPENSE		
Interest expense (note 10)	150,000	150,000
Accretion of secured debentures (note 10)	9,041	7,895
Accretion of decommissioning liabilities (note 9)	6,322	3,392
Bad debt expense	-	2,946
	(165,363)	(164,233)
OTHER INCOME		
Recovery of abandonment estimates	5,590	11,687
NET LOSS	(725,097)	(563,905)
Other comprehensive income that may subsequently be transferred to net loss		
Currency translation adjustment	418,439	(265,848) -
NET LOSS AND COMPREHENSIVE LOSS	(306,658)	(829,753)
Basic and diluted loss per share (note 11(h))	(0.00)	(0.01)
Weighted average number of common shares outstanding during the year	92,212,044	81,620,976

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, 2017	17,687,906	510,698	4,854,074	(20,245,314)	424,617	3,231,981
Loss for the year	-	-	-	(725,097)	-	(725,097)
Translation differences on foreign subsidiaries	-	-	-	-	418,439	418,439
Private placement (note 11(b))	661,232	440,034	-	-	-	1,101,266
Broker warrants (note 11(f))	(1,454)	(824)	2,278	-	-	-
Cash share issue costs (note 11(b))	(15,249)	(8,874)	-	-	-	(24,123)
Exercise of warrants (note 11(e))	226,928	-	-	-	-	226,928
Reallocation of warrant fair value on exercise (note 11(e))	25,819	(25,819)	-	-	-	-
Reallocation of warrant fair value on expiry (note 11(e))	-	(123,045)	123,045	-	-	-
Exercise of stock options (note 11(c))	51,800	-	-	-	-	51,800
Reallocation of stock option fair value on exercise	42,199	-	(42,199)	-	-	-
Share-based payments (note 11(d))	-	-	357,880	-	-	357,880
BALANCE AS AT DECEMBER 31, 2018	18,679,181	792,170	5,295,078	(20,970,411)	843,056	4,639,074

(Canadian $)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
BALANCE AS AT DECEMBER 31, 2016	17,070,170	1,151,290	3,663,937	(19,681,409)	690,465	2,894,453
Loss for the year	-	-	-	(563,905)	-	(563,905)
Translation differences on foreign subsidiaries	-	-	-	-	(265,848)	(265,848)
Private placement (note 11(b))	521,117	428,033	-	-	-	949,150
Share issue costs (note 11(b) and (e))	(24,945)	(25,134)	16,132	-	-	(33,947)
Expiry of warrants (note 11(e))	-	(1,104,458)	1,104,458	-	-	-
Expiry of warrant share issue costs (note 11(e))	-	66,718	(66,718)	-	-	-
Exercise of warrants (note 11(e))	75,616	-	-	-	-	75,616
Reallocation of warrant fair value on exercise (note 11(e))	5,751	(5,751)	-	-	-	-
Exercise of stock options (note 11(c))	22,650	-	-	-	-	22,650
Reallocation of stock option fair value on exercise	17,547	-	(17,547)	-	-	-
Share-based payments (note 11(d))	-	-	153,812	-	-	153,812
BALANCE AS AT DECEMBER 31, 2017	**17,687,906**	**510,698**	**4,854,074**	**(20,245,314)**	**424,617**	**3,231,981**

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

Marksmen Energy Inc.

Consolidated Statements of Cash Flows

(Canadian $)	December 31, 2018	December 31, 2017
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the year	(725,097)	(563,905)
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation (note 7)	322,850	431,756
Accretion of decommissioning liabilities (note 9)	6,322	3,392
Accretion of secured debentures (note 10)	9,041	7,895
Recovery of abandonment estimates (note 9)	(5,590)	(11,687)
Abandonment costs incurred (note 9)	(1,394)	-
Share-based payments (note 11(d))	328,022	142,485
Change in trade and other receivables	458,296	(373,975)
Change in deposits and prepaid expenses	(637)	(1,609)
Change in accounts payable and accrued liabilities	54,051	315,075
CASH FLOW PROVIDED BY (USED IN) OPERATING ACTIVITIES	**445,864**	**(50,573)**
INVESTING ACTIVITIES		
Disposals (expenditures) on property and equipment (note 7)	21,985	(174,742)
Expenditures on exploration and evaluation (note 6)	(2,664,039)	(75,465)
Change in non-cash working capital	-	(37,493)
CASH FLOW USED IN INVESTING ACTIVITIES	**(2,642,054)**	**(287,700)**
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs (note 11(b))	1,077,144	915,203
Proceeds from exercise of warrants (note 11(b))	226,928	75,616
Proceeds from exercise of stock options (note 11(b))	51,800	22,650
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	**1,355,872**	**1,013,469**
Foreign exchange effect on cash	146,906	9,095
(Decrease) increase in cash	(693,413)	684,291
Cash, beginning of year	801,097	116,806
CASH, END OF YEAR	**107,685**	**801,097**

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

1 Reporting entity and going concern

Marksmen Energy Inc. (the "Company") is involved in the exploration for, development of and production of petroleum and natural gas properties in Ohio, USA. 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 December 31, 2018, the Company had not yet achieved profitable operations, had accumulated a deficit of $20,970,411 , a negative working capital of $1,594,348, and may incur further losses in the development of its business. The ability to continue as a going concern is dependent on global commodity markets, obtaining continued financial support by completing public equity financing, continuing to be able to renegotiate the secured debentures that mature on December 31, 2019, and by drilling additional oil and gas wells that will increase cash-flow and oil and gas reserves. The timing and extent of forecast capital and operating expenditures is based on the Company's 2019 budget and on management's estimate of expenditures expected to be incurred beyond 2019.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at December 31, 2018, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company successfully completed two private placements during the year ended December 31, 2018 (note 11(b)). To achieve its intended development, management is committed to raising additional capital. Subsequent to December 31, 2018, the Company successfully completed two private placement for gross proceeds of $388,000 (note 18), has successfully renegotiated the secured debentures that matured on December 31, 2018 (note 10), and realizing additional cash flows from drilling activities. Additional equity financing is subject to volatile financial markets and economic conditions.

The consolidated financial statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these consolidated financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and financial position classifications may be necessary and such adjustments could be material.

2 Basis of presentation

a) Statement of compliance:

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the International Accounting Standards Board. The policies applied in these consolidated financial statements are based on IFRS issued and effective on January 1, 2018. The Board of Directors approved the consolidated financial statements on April 25, 2019.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 2(e).

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, revenues 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.

<u>Significant judgments</u>

Determination of cash-generating units ("CGU")

Property and equipment are aggregated into CGUs based on their ability to generate largely independent cash inflows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment and include consideration of product composition, location, and operational and management monitoring. The Company has identified one CGU, Ohio USA (2017 – two CGUs, Ohio USA and Alder Flats, Alberta).

Deferred taxes

The provision for income taxes is based on judgments in applying income tax law and estimates on the timing, probability and reversal of temporary differences between accounting and tax bases of assets and liabilities.

<u>Significant estimates and assumptions</u>

Reserves

Oil and gas development and production properties are depleted on a unit of production basis at a rate calculated by reference to proved and probable reserves determined in accordance with the Society of Petroleum Engineers rules and incorporating the estimated future cost of developing and extracting those reserves. Oil and gas reserves are also used to evaluate impairment of petroleum and natural gas properties. Commercial reserves are determined using estimates of oil and natural gas in place, recovery factors, discount rates and forward future prices. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. These estimates may change, having either a positive or negative impact on the consolidated statement of comprehensive loss as further information becomes available and as the economic environment changes.

Decommissioning liabilities

The Company estimates the decommissioning liabilities for oil and natural gas wells and their associated production facilities and pipelines. In most instances, removal of assets and remediation occurs many years into the future. Amounts recorded for the decommissioning liabilities and related accretion expense require estimates regarding removal date, future environmental legislation, the extent of reclamation activities required, the engineering methodology for estimating costs, future removal technologies in determining the removal costs, and discount rates to determine the present value of these cash flows.

Exploration and evaluation

The accounting for exploration and evaluation requires management to make certain estimates and assumptions as to future events and circumstances as to whether economic quantities of reserves have been found.

Share-based payments

The fair value of stock options and warrants granted is recognized using the Black-Scholes option pricing model. Measurement inputs include the Company's share price on the measurement date, the exercise price of the option, the expected volatility of the Company's shares, the expected life of the options, expected dividends and the risk-free rate of return. The Company estimates volatility based on the historical share price in the publicly traded markets. The expected life of the options is based on historical experience and estimates of the holder's behavior. Dividends are not factored in as the Company does not expect to pay dividends in the foreseeable future. Management also makes an estimate of the number of options that will be forfeited and the rate is adjusted to reflect the actual number of options that actually vest.

Recoverability of assets

The Company assesses impairment on its assets that are subject to depletion and depreciation when it has determined that a potential indicator of impairment exists. Impairment exists when the carrying value of a non-financial asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The Company used the calculation of fair value less costs of disposal to determine the fair value of its CGU's. In determining the fair value less costs of disposal, the amount is most sensitive to the future commodity prices, discount rates, and estimates of proved and probable reserves, to determine an implied fair value of the CGU being tested.

Provision for doubtful accounts

The Company's trade and other receivables are typically short-term in nature and the Company recognizes an amount equal to the lifetime expected credit losses ("ECL") on receivables for which there has been a significant increase in credit risk since initial recognition. The Company measures loss allowances based on historical experience and including forecasted economic conditions. The amount of ECLs is sensitive to changes in circumstances of forecast economic conditions.

3 Significant accounting policies

Cash

Cash is comprised of cash on hand, term deposits held with banks and cash held in trust. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management, whereby management has the ability and intent to net bank overdrafts against cash, are included as a component of cash for the purpose of the consolidated statement of cash flows.

Financial instruments

On January 1, 2018, the Company adopted IFRS 9, "Financial Instruments" and the standard was applied retrospectively. Comparative figures have not been restated, in accordance with transitional provisions. The Company's consolidated financial statements were substantially unchanged by the adoption of IFRS 9.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The details of IFRS 9 and the nature and effect of changes to previous accounting policies are discussed below.

Classification and measurement of financial assets and liabilities

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through OCI ("FVOCI") and fair value through profit and loss ("FVTPL"). The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. The classification categories are as follows:

- A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortized cost are measured using the effective interest method.

- Financial assets at fair value through other comprehensive income: assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Financial assets at fair value through profit or loss: assets that do not meet the criteria for amortized cost or fair value through other comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire or when the contractual rights to those assets are transferred.

Financial liabilities – The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the Consolidated Statement of Comprehensive Income.
- Financial liabilities measured at fair value through profit or loss: financial liabilities measured a fair value with changes in fair value and interest expense recognized in the Consolidated Statement of Comprehensive Loss.

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

Cash that was classified as fair value through profit or loss under IAS 39 which is now classified at amortized cost. Trade and other receivables were classified as loans and receivables under IAS 39 are now classified as financial assets at amortized cost. Trade payables, accrued liabilities, and secured debentures which were previously classified as other financial liabilities under IAS 39 are now classified as financial liabilities at amortized cost under IFRS 9. No change in measurement related to these items was recorded on the transition to IFRS 9 on the prior year comparative information as there was no material impact.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model for calculating impairment. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. The Company applied the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables No change in measurement related to these items was recorded on the prior year comparative information as there was no material impact.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

There were no material adjustments to the carrying amounts of any of the Company's financial instruments following the adoption of IFRS 9.

Property and equipment and exploration and evaluation assets

(a) Recognition and measurement:

(i) Exploration expenditures and exploration and evaluation assets ("E&E"):

Pre-license costs are recognized in the consolidated statement of comprehensive loss as incurred.

All costs associated with the exploration and evaluation of oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, exploration and evaluation drilling, and sampling and appraisals.

When an area is determined to be technically feasible and commercially viable the accumulated costs are tested for impairment and the carrying value, net of impairment, if any, is transferred to property and equipment. When an area is determined not to be technically feasible and commercially viable and the Company decides not to continue with its activity, the unrecoverable costs are charged to comprehensive loss as exploration and evaluation expense. Exploration and evaluation assets are not depreciated or depleted.

(ii) Property and equipment:

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proven plus probable reserves, incorporating estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves. Costs of major development projects are excluded from the costs subject to depletion unless they are available for use. Proved plus probable reserves are estimated using independent reserve engineers and represent the estimated quantities of crude oil and natural gas to be recoverable in future years.

Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within “other income” or “other expenses” in the Consolidated Statement of Comprehensive Loss.

(iii) Other property and equipment:

Other property and equipment are carried at cost and depreciated over the estimated useful lives of the assets at various rates per annum calculated on a declining balance basis.

The Company uses the following depreciation rates:

Asset class	**Rate**
Furniture and fixtures	20%
Computer hardware	45%

(b) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the Consolidated Statement of Comprehensive Loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the Consolidated Statement of Comprehensive Loss as incurred.

Impairment

Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than ("E&E") assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. E&E assets are assessed for impairment when they are reclassified to property and equipment, as oil and natural gas interests, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are assessed at the CGU level.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal ("FVLCD"). Value in use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. FVLCD is based on available market information, where applicable. In the absence of such information, FVLCD is determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

Share-based payments

The Company issues warrants and stock options to directors, officers and other consultants. The fair value of warrants and options granted is measured at the grant date, using the Black-Scholes option pricing model, and, for options, is recognized over the vesting period. The fair value of warrants are recognized as a reduction to share capital with a corresponding increase to warrants. The fair value of options are recognized as compensation expense with a corresponding increase in contributed surplus. A forfeiture rate is estimated on the grant date based on historical forfeitures and is adjusted to reflect the actual number of options that vest. When stock options are exercised, the fair value of the exercised options are derecognized from contributed surplus and recognized in share capital. When warrants are exercised, the fair value of the exercised warrants are derecognized from warrants and recognized in share capital.

Modification of share purchase warrants

The Company may modify the terms of share purchase warrants originally granted. When modifications exist, the Company will maintain the original fair value of the of the share purchase warrant.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a risk-free rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

Decommissioning liabilities

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning liabilities are measured at the present value, using a risk-free rate, of management's best estimate of expenditures required to settle the present obligation at the consolidated statement of financial position date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, changes in the discount rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and changes in the discount rate are capitalized and amortized over the same period as the underlying asset. Actual costs incurred upon settlement of the decommissioning liability are charged against the provision to the extent the provision was established.

Revenue

Effective January 1, 2018, the Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

The Company has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on provisions, bad debt expense and foreign exchange.

Interest income is recognized as it accrues in the consolidated statement of comprehensive loss, using the effective interest method.

Tax

Tax expense comprises current and deferred tax. Tax expense is recognized in the consolidated statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method, by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees and warrants.

Compound financial instruments

Compound financial instruments issued by the Company are comprised of borrowings that have both a liability and equity component. The liability component of the compound financial instrument is recognized initially at fair value. The equity component is recognized as the difference between the proceeds received from the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to the initial recognition.

Investments

Investments in companies subject to significant influence other than the subsidiary are accounted for using the equity method. The equity method is a basis of accounting whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the Company's pro-rata share of post-acquisition income or loss. The amount of the adjustment is included in the determination of net loss by the Company and the investment account of the Company is also increased or decreased to reflect the Company share of capital transactions and changes in accounting policies and corrections of errors. If the Company's share of losses equals or exceeds its interest, the Company discontinues recognizing its share of further losses. Profit distributions received or receivable from the investments will reduce the carrying value of the investment. Investments accounted for on the equity basis are written down to their fair value when they have a loss in value that is other than a temporary decline.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into their Canadian dollar equivalents at exchanges rates prevailing at the transaction dates. Carrying values of the monetary assets and liabilities are translated into their Canadian dollar equivalents at the exchange rates in effect on the consolidated statement of financial position date. Gains and losses on translation or settlement are included in the Consolidated Statement of Comprehensive Loss for the current year.

The financial results of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of foreign operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange ruling at the reporting date. Differences arising on translation are recognized as other comprehensive loss.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the consolidated statement of comprehensive loss in the period in which they are incurred.

Jointly controlled operations

A significant portion of the Company's oil and natural gas development and production activities are conducted through jointly controlled operations with others and accordingly, the accounts reflect only the Company's interest in such activities.

4 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 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 determined the impact will not be significant to the consolidated financial statements.

5 Equity investment

During the year ended December 31, 2012, the Company's share of the US Private Company ("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 PrivateCo. initiated in the year ended December 31, 2011, and as at December 31, 2018, 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.

6 Exploration and evaluation

	As at December 31, 2018	As at December 31, 2017
Balance, beginning of year	1,736,033	1,736,916
Expenditures on exploration and evaluation assets	2,693,897	86,792
Foreign exchange translation	115,644	(87,675)
BALANCE, END OF YEAR	**4,545,574**	**1,736,033**

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at December 31, 2018, the Company has $4,545,574 in E&E assets (2017 - $1,736,033). The additions represent the acquisition of undeveloped land, seismic activity and the drilling of a well that has not reached technical feasibility and commercial viability within Ohio, USA, and includes $29,858 of capitalized share-based payments and $50,295 of capitalized consulting payments. The transfers to property and equipment reflect assets in which technological feasibility and commercial viability have been established. There were no transfers during the year ended December 31, 2018 or 2017. As at December 31, 2018 and 2017, there were no indicators of impairment of the E&E assets.

7 Property and equipment

	As at December 31, 2018	As at December 31, 2017
Petroleum and natural gas assets	4,089,833	3,803,559
Corporate assets	20,385	20,385
Property and equipment at cost	4,110,218	3,823,944
Accumulated depletion and depreciation	(2,033,370)	(1,600,834)
PROPERTY AND EQUIPMENT NET CARRYING AMOUNT	**2,076,848**	**2,223,110**

Petroleum and natural gas assets

COST	As at December 31, 2018	As at December 31, 2017
Balance, beginning of year	3,803,559	3,845,142
Disposals	(21,985)	174,742
Change in estimate of decommissioning liabilities (note 9)	21,395	1,898
Foreign currency translation	286,864	(218,223)
BALANCE, END OF YEAR	**4,089,833**	**3,803,559**
ACCUMULATED DEPLETION		
Balance, beginning of year	(1,582,575)	(1,211,605)
Depletion	(322,251)	(430,830)
Foreign currency translation	(109,686)	59,860
BALANCE, END OF YEAR	(2,014,512)	(1,582,575)
NET CARRYING AMOUNT, END OF YEAR	**2,075,321**	**2,220,984**

During the year ended December 31, 2018, the Company disposed of storage tanks for proceeds of $21,985. There was no gain or loss recognized on this transaction.

At December 31, 2018, future development costs of $1,336,370 (2017 - $1,329,143) are included in costs subject to depletion. The Company's Canadian petroleum and natural gas assets continued to be shut-in during the year ended December 31, 2018, and continue to have a $nil value.

Corporate assets

COST	As at December 31, 2018	As at December 31, 2017
Balance, beginning of year	20,385	20,385
Additions	-	-
BALANCE, END OF YEAR	**20,385**	**20,385**
ACCUMULATED DEPRECIATION		
Balance, beginning of year	(18,259)	(17,333)
Depreciation	(599)	(926)
BALANCE, END OF YEAR	(18,858)	(18,259)
NET CARRYING AMOUNT, END OF YEAR	**1,527**	**2,126**

8 Impairment

For the year ended December 31, 2018, the decrease in commodity prices experienced in the fourth quarter of 2018 was an indicator of impairment, and accordingly, impairment and recovery testing was required. The Company prepared estimates of future cash flows to determine the recoverable amounts of the respective assets. 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, 2018 was 10% applied to proven reserves and 15% applied to probable reserves. The FVLCD estimates are categorized as level 2 according to the IFRS 13 fair value hierarchy. Based on the assessment at December 31, 2018, the fair value less costs of disposal of the Company's Ohio, USA CGU exceeded their carrying amount.

During the year ended December 31, 2018, there were no additions to the Company's oil and natural gas assets in Alder Flats, which continued to be held at a $nil value.

Forecast future prices used in the impairment evaluation as at December 31, 2018 reflect benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

	WTI Crude Oil ($US/bbl)	FX Rate
2019	56.50	0.75
2020	63.80	0.78
2021	67.60	0.80
2022	71.60	0.80
2023	73.10	0.80

Prices increase at a rate of approximately 2.0% across all products per year after 2023 until the end of the reserve life.

9 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $389,000 (2017 - $357,466). The total undiscounted amount of estimated future cash flows is $447,068 (2017 - $368,552). These payments are expected to be made over the next 20 years. The obligations on the Canadian properties have been calculated using an inflation rate of 2% (2017 – 2%) and a discount factor, being the average risk-free rate related to the liability, of 1.81% - 1.85% (2017 – 1.66% - 1.81%). The obligations on the US properties have been calculated using an inflation rate of 2% (2017 – 2%) and a discount factor, being the average risk free rate related to the liability of 1.94% (2017 – 1.81% - 1.97%).

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 $5,590 (2017 - $11,687) as the estimated capitalized abandonment costs were previously impaired. This gain of $1,436 is included in the "change in estimates" line item below.

	December 31, 2018	December 31, 2017
Balance, beginning of year	357,466	372,360
Liabilities incurred	35,763	4,999
Change in estimate	(19,959)	(14,840)
Accretion expense	6,322	3,392
Actual abandonment costs	(1,394)	-
Foreign currency translation	10,802	(8,445)
BALANCE, END OF YEAR	**389,000**	**357,466**

10 Secured debentures

On June 28, 2013, the Company closed a secured debenture (the "Debenture") for gross proceeds of $750,000. The Debenture bears interest of 12% per annum, the first payment was due and paid by the Company on June 28, 2014, and each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2014. The Company fulfilled both interest payment requirements during the year ended December 31, 2018. As of December 31, 2018, the Company has incurred $495,997 of interest expense (2017 - $405,997), of which $90,000 was incurred during the year ended December 31, 2018 (2017 - $90,000). 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. 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 have, at any time, repaid 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 in conjunction with the June 19, 2015 extension). On June 28, 2018, the remaining 1,250,167 share purchase warrants were exercised for gross proceeds of $212,528 (2017 - 444,800) of the warrants were exercised).

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 be deployed towards the continued developed of the Company's projects. The Debenture B bears interest of 12% per annum, with the first payment due and paid by the Company on December 31, 2015, with each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2015. The Company fulfilled both interest payment requirements during the year ended December 31, 2018. As of December 31, 2018, the Company has incurred $212,383 (2017 - $152,383) of interest expense, of which $60,000 was incurred during the year ended December 31, 2018 (2017 - $60,000). Debenture B matured on December 31, 2018. The Company may, at any time, repay 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 Debenture B agreement, Debenture B holder may demand repayment of Debenture B or accelerate the date for payment. Security for Debenture B includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

Pursuant to 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 entire 1,777,778 warrants expired on December 31, 2018.

The Company valued the warrant feature of the Debenture B using the residual method. The liability component was valued at $473,054 and the equity residual value attributed to the component was $26,946, which net of tax is $19,671.

	Secured debentures
Balance, December 31, 2016	1,233,064
Accretion of secured debentures	7,895
Balance, December 31, 2017	1,240,959
Accretion of secured debentures	9,041
Balance, December 31, 2018	**1,250,000**

On January 29, 2019, the Company closed a private placement of a non-convertible secured debenture ("Debenture C") to replace the Debenture and Debenture B. The non-convertible Debenture was issued for $1,250,000, along with the issuance of 1,800,000 share purchase warrants of the Company. Each whole warrant entitles the holder thereof to purchase one common share of the Company for $0.24 per share if Debenture C is paid in full by April 30, 2019 and at $0.22 per share thereafter, expiring on December 31, 2019. Debenture C bears an interest rate of 12% per annum and matures on December 31, 2019. The terms of Debenture C are the same as the Debenture and Debenture B.

11 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, 2016	79,200,432	17,070,170
Shares issued pursuant to private placement (i)	1,350,000	90,895
Shares issued pursuant to private placement (ii)	3,002,500	181,176
Shares issued pursuant to private placement (iii)	3,826,333	249,046
Exercise of warrants (note 11(e))	444,800	75,616
Reallocation of warrant fair value on exercise (note 11(e))	-	5,751
Exercise of stock options (note 11(d))	278,000	22,650
Reallocation of stock option fair value on exercise	-	17,547
Share issue costs (i)(ii)(iii)	-	(24,945)
Balance, December 31, 2017	**88,102,065**	**17,687,906**
Shares issued pursuant to private placement (iv)	3,458,409	440,064
Shares issued pursuant to private placement (v)	3,125,002	221,168
Exercise of stock options (note 11(d))	721,000	51,800
Reallocation of stock option fair value on exercise	-	42,199
Exercise of warrants (note 11(e))	1,330,167	226,928
Reallocation of warrant fair value on exercise (note 11(e))	-	25,819
Share issue costs (iv)(v)	-	(16,703)
Balance, December 31, 2018	**96,736,643**	**18,679,181**

i) On March 31, 2017, the Company completed a private placement, issuing 1,350,000 units ("Unit B") for aggregate proceeds of $135,000. Each Unit B 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 $44,105 (note 11(e)(i)). In connection with the private placement, the Company incurred cash share issue costs of $3,505, of which $1,145 were allocated to warrants (note 11(e)(i)).

ii) On June 30, 2017, August 28, 2017 and October 27, 2017, the Company issued units under a private placement that was completed on October 27, 2017, issuing a total of 3,002,500 units ("Unit C") for aggregate proceeds of $240,200. 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

$59,024 (note 11(e)(ii)). In connection with the private placement, the Company incurred cash share issue costs of $5,886, of which $4,930 was allocated to share capital and $956 was allocated to warrants.

iii) On December 22, 2017, the Company completed a private placement, issuing 3,826,333 units ("Unit D") for aggregate proceeds of $573,950. 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 $0.30 per common share for a period of 24 months from issuance, which was valued at $324,904 (note 11(e)(iii)). In connection with the private placement, the Company incurred cash share issue costs of $24,556 and 111,947 broker warrants valued at $16,132. Each broker warrant entitled the holder thereof to purchase one common share of the Company for $0.15 for a period of 12 months from issuance (note 11(f)). Share issue costs of $17,655 were allocated to share capital and $23,033 was allocated to warrants.

iv) On April 13 and April 27, 2018, the Company closed a private placement issuing a total of 3,458,409 units ("Unit D") for aggregate proceeds of $726,266. 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 $0.42 per common share for a period of 24 months from issuance, which was valued at $286,202 (note 11(e)(iv)). In connection with the private placement, the Company incurred cash share issue costs of $14,674 and issued 13,600 broker warrants valued at $1,575. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of $0.21 per common share for a period of 12 months from issuance (note 11(f)). Share issue costs of $10,715 were allocated to share capital and $5,534 were allocated to warrants.

v) On November 2 and November 16, 2018, the Company closed a private placement issuing a total of 3,125,002 units ("Unit D") for aggregate proceeds of $375,000. 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 $0.24 per common share for a period of 24 months from issuance, which was valued at $153,832 (note 11(e)(v)). In connection with the private placement, the Company incurred cash share issue costs of $9,449 and issued 8,000 broker warrants valued at $703. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of $0.12 per common share for a period of 12 months from issuance (note 11(f)). Share issue costs of $5,988 were allocated to share capital and $4,164 were allocated to warrants.

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.

A summary of the status of the Company's stock option plan and changes during the year is as follows:

	As at December 31, 2018		As at December 31, 2017	
	Number	Weighted Average Exercise Price ($)	Number	Weighted Average Exercise Price ($)
Balance, beginning of the year	8,057,000	0.19	7,421,667	0.18
Granted	2,795,000	0.18	2,025,000	0.17
Exercised	(721,000)	(0.07)	(278,000)	(0.08)
Forfeited	(162,000)	(0.18)	-	-
Expired	(300,000)	(0.17)	(1,111,667)	(0.12)
BALANCE, END OF YEAR	**9,669,000**	**0.19**	**8,057,000**	**0.19**

Exercise Price ($)	Options Outstanding	Weighted Average Remaining Term (Years)	Weighted Average Exercise Price ($)	Options Exercisable	Weighted Average Exercise Price ($)
0.00 - 0.09	1,884,000	2.23	0.06	1,884,000	0.06
0.10 - 0.19	3,085,000	3.01	0.14	1,983,333	0.14
0.20 - 0.29	2,850,000	4.13	0.21	1,433,333	0.21
0.40 - 0.49	1,850,000	0.63	0.40	1,850,000	0.40

As at December 31, 2018, the Company had 7,150,666 exercisable options and 2,518,334 options granted but not yet vested (2017 – 6,281,667 and 1,775,333, respectively). The weighted average exercise price of the exercisable options is $0.20 (2017 - $0.20).

d) Share-based payments

During the year ended December 31, 2018, the Company granted 2,795,000 stock options (2017 – 2,025,000), and 721,000 were exercised, 300,000 expired unexercised, and 162,000 were cancelled (2017 – 278,000, 1,111,667, and nil respectively). The options granted are exercisable at an average $0.18 per option and expire 5 years after the grant date. One third of the stock options vest immediately and the remaining stock options granted vest one third 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 December 31, 2018	As at December 31, 2017
Risk-free interest rate	2.02%	1.39%
Expected life	2.5 years	2.5 years
Expected volatility	182.15%	166.61%
Fair value per option	$0.14	$0.04
Forfeiture rate	0.00%	0.00%
Dividend yield	-	-

Share-based payments expense recognized during the year ended December 31, 2018 was $357,880 (2017 - $168,998), of which $328,022 has been recorded in the Consolidated Statement of Comprehensive Loss (2017 - $142,485) and $29,858 has been capitalized as E&E (2017 - $11,327), 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, 2016	11,999,100	0.24	1,151,291	0.90
Expiry of warrants	(7,129,355)	0.25	(1,104,458)	-
Expiry of warrant share issue costs	-	-	66,718	-
Exercise of warrants	(444,800)	(0.17)	(5,751)	-
Warrants issued pursuant to private placement (note 11(b)(i))	675,000	0.25	44,105	1.25
Warrants issued pursuant to private placement (note 11(b)(ii))	1,501,250	0.25	59,024	1.57
Warrants issued pursuant to private placement (note 11(b)(iii))	1,913,167	0.25	324,904	1.98
Share issue costs (note 11(b)(i)(ii)(iii))	-	-	(25,134)	-
Balance, December 31, 2017	**8,514,362**	**0.24**	**510,699**	**1.01**
Warrants issued pursuant to private placement (note 11(b)(iv))	1,729,205	0.42	286,202	1.83
Warrants issued pursuant to private placement (note 11(b)(v))	1,562,501	0.24	153,832	1.57
Exercise of warrants	(1,330,167)	0.17	(25,819)	-
Expiry of warrants	(2,902,278)	0.25	(129,508)	-
Expiry of warrant share issue costs	-	-	6,462	-
Share issue costs (note 11(b)(iv)(v))	-	-	(9,698)	-
Balance, December 31, 2018	**7,573,623**	**0.30**	**792,170**	**1.07**

(i) As part of the units issued on March 31, 2017 (note 11(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 $44,105 ($0.07 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 placement, share issue costs totaling $1,145 were allocated to warrants (note 11(b)(i)).

(ii) As part of the units issued in the private placement that closed on October 27, 2017 (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 $59,024 ($0.04 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 placement, share issue costs totaling $956 were allocated to warrants (note 11(b)(ii)).

(iii) As part of the units issued in the private placement that closed on December 22, 2017 (note 11(b)(iii)), 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 $0.30 for a period of 24 months from the date of closing. A value of $324,904 ($0.16 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 placement, share issue costs totaling $23,033 were allocated to warrants (note 11(b)(iii)).

(iv) As part of the units issued in the private placement that closed on April 13, 2018 and April 27, 2018 (note 11(b)(iv)), 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 $0.42 for a period of 24 months from the date of closing. A value of $286,202 ($0.17 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 placement, share issue costs totaling $5,534 were allocated to warrants (note 11(b)(iv)).

(v) As part of the units issued in the private placement that closed on November 2, 2018 and November 16, 2018 (note 11(b)(v)), 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 $0.24 for a period of 24 months from the date of closing. A value of $153,832 ($0.10 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 placement, share issue costs totaling $4,164 were allocated to warrants (note 11(b)(v)).

The fair value of the warrants issued are estimated as at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the calculation are noted below:

	As at December 31, 2018	As at December 31, 2017
Risk-free interest rate	1.82%	0.73%
Expected life	2.00 years	2.00 years
Expected volatility	153.86%	191.66%
Fair value per warrant	$0.13	$0.08

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price ($)	Amount($)	Weighted Average Expiry Date
Balance, December 31, 2016	58,080	0.15	4,207	0.29
Broker warrants expired unexercised	(58,080)	(0.15)	(4,207)	(0.29)
Broker warrants issued pursuant to private placement (note 11(b)(iii))	111,947	0.15	16,132	0.98
Balance, December 31, 2017	**111,947**	**0.15**	**16,132**	**0.73**
Broker warrants issued pursuant to private placement (note 11(b)(iv)and (v))	21,600	0.18	2,278	0.82
Balance, December 31, 2018	**133,547**	**0.15**	**18,410**	**0.06**

(i) During the year ended December 31, 2017, the Company issued 111,947 (note 11(b)(v)) 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 $16,132 and recorded as share issue costs. The broker warrants were exercised before the expiry date of December 31, 2018, however the related common shares were not issued and proceeds were not received until subsequent to year end. Accordingly, the broker warrants were not recorded as expired and remained outstanding at December 31, 2018.

(ii) As part of the private placement that closed on April 13, 2018 and April 27, 2018, the Company issued 13,600 (note 11(b)(iv)) 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 $0.21 per common share for a period of 1 year from the date of closing. The broker warrants were valued at $1,575 and recorded as share issue costs.

(iii) As part of the private placement that closed on November 2, 2018 and November 16, 2018, the Company issued 8,000 (note 11(b)(v)) 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 $0.12 per common share for a period of 1 year from the date of closing. The broker warrants were valued at $703 and recorded as share issue costs.

The fair value of the Broker Warrants granted is estimated as at the grant date using the Black-Scholes option pricing model. The assumptions used in the calculation are noted below:

	As at December 31, 2018	As at December 31, 2017
Risk-free interest rate	2.03%	1.64%
Expected life	1 year	1 year
Expected volatility	164.59%	176.33%
Fair value per broker warrant	$0.18	$0.14

g) Contributed surplus

	As at December 31, 2018	As at December 31, 2017
Balance, beginning of the year	4,854,074	3,663,937
Share-based payments (note 11(d))	328,022	142,485
Capitalized share-based payments (note 11(d))	29,858	11,327
Expiry of warrants (note 11(e))	129,508	1,104,458
Expiry of warrant share issue costs (note 11(e))	(6,463)	(66,718)
Broker warrants issued (note 11(f))	2,278	16,132
Exercise of stock options (note 11(c))	(42,199)	(17,547)
BALANCE, END OF YEAR	**5,295,078**	**4,854,074**

h) Per share data

Basic loss per share is calculated based on the weighted average number of shares outstanding during the year. 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.

12 Tax

Tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 27.00% (2017 – 27.00%) to income before taxes as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Net loss before taxes	(725,097)	(563,905)
Combined federal and provincial tax rate	27%	27%
Computed expected tax	(195,776)	(152,254)
Increase (decrease) in taxes resulting from:		
Share-based payments	88,566	38,471
Change in estimates and other	(103,627)	-
Deferred tax asset not recognized	210,837	113,783
	-	-

Details of deferred tax assets (liabilities) are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Deferred tax assets (liabilities)		
Debenture - Canada	-	(2,441)
Non-capital losses – Canada	-	2,441
Oil and gas properties – US	(1,175,062)	(575,275)
Net-operating losses – US	1,175,062	556,073
Decommissioning liability - US	-	19,202
Deferred tax assets (liabilities)	-	-

Details of the unrecognized deductible temporary differences are as follows:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Decommissioning tax assets (liabilities)	232,240	233,935
Capital losses – Canada	2,059,000	2,059,000
Non-capital losses – Canada	7,715,108	7,008,819
Oil and Gas properties – Canada	615,893	615,294
Share issue costs – Canada	67,040	66,243
Decommissioning liability - US	156,860	32,095
Non-capital losses – US	2,491	-
Unrecognized deductible temporary differences	10,848,632	10,015,386

At this stage of the Company's development, it cannot be reasonably estimated that there will be future taxable profits, accordingly there were no deferred income tax assets recognized.

The Company has estimated tax pools totaling:

	Rate of Claim	For the year ended December 31, 2018	For the year ended December 31, 2017
Canadian development expense	30%	14,308	14,308
Canadian oil and gas property expense	10%	484,498	484,498
Foreign resource expenditures	10-12%	827,966	916,640
Undepreciated capital cost	Various	117,103	117,103
Share issue costs		67,040	66,243
Non-capital loss carry forward – Canada		7,715,108	7,017,860
Net operating loss carry forward – US		5,534,955	2,647,965
Capital loss carry forward		2,059,000	2,059,000
		16,819,978	13,323,617

The accumulated non-capital loss carry forwards expire between 2029 and 2039.

13 Related party transactions

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

a) An aggregate of $179,100 (2017 - $152,640) 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 $30,000 (2017 - $30,000) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of $103,686 (2017 - $82,191) in consulting fees and related costs were paid to a director and Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. of which $50,295 (2017 - $59,561) were capitalized as E&E costs (note 6).

b) Aggregate legal fees of $54,665 (2017 - $39,312) were charged by a law firm in which a director of the Company is a partner, of which $34,359 (2017 - $22,157) were expensed as general and administrative expenses and $20,307 (2017 - $17,155) were charged to share capital as share issue costs.

c) As at December 31, 2018, the Company has accounts payable and accrued liabilities totaling $43,232 (2017 – $32,337) owing to related parties relating to the above transactions.

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

Key management compensation

Key management includes the Company's executive management.

	As at December 31, 2018	As at December 31, 2017
Compensation	372,786	332,331
Share based payments	161,851	81,698
TOTAL	**534,637**	**414,029**

A portion of the key management compensation of $282,786 (2017 - $234,831) has been paid through consulting fees, which are included in note 13(a).

14 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 debentures were 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.

(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 December 31, 2018, the Company had cash of $107,685 (2017 - $801,097), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at December 31, 2018, the Company's accounts receivable consisted of $65,822 receivable from oil and natural gas marketing companies (2017 - $70,478), $11,155 receivable from joint venture working interest owners (2017 - $448,106) and $11,802 related to goods and service tax owing from the Government of Canada (2017 - $7,595). As at December 31, 2018, 74% (2017 - 13%) of the Company's receivable are held with one oil and natural gas marketing company and is therefore subject to concentration risk. Receivables from oil and natural gas marketing companies are typically collected within one month of delivery of product and historically the Company has not experienced collection issues with its marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued and cash call receivables are usually provided to the operator at least 30 days in advance of drilling. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. In certain circumstances, the Company may request an operating advance, cash call a partner in advance of capital expenditures being incurred, or revoke a non-operating working interest owners take-in-kind rights pursuant to joint operating agreement provisions 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.

Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2018 and 2017, excluding any impaired accounts, are as follows:

Days outstanding	As at December 31, 2018	As at December 31, 2017
0-30 days	76,977	503,641
31-60 days	11,802	22,407
61-90 days	-	-
Greater than 90 days	-	131
Trade and other receivables, net of allowance	**88,779**	**526,179**
Impairment provision	**-**	**-**

The Company assessed the credit loss risk as $nil based on historical data.

(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 December 31, 2018, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $602,952 (2017 - $515,871), which are all due over the next twelve months, and the secured debentures balance of $1,250,000 (note 10), which matured on December 31, 2018. The Company attempts, as far as possible, to have sufficient liquidity to meet its 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 years ended December 31, 2018 and 2017. A 20% change is price per bbl in commodity process would impact petroleum and natural gas sales by approximately $207,000.

(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. The Company currently sells oil or natural gas in foreign currencies and 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 year would not have a material impact on the Company's loss.

As at December 31, 2018 and 2017, the Company had no forward exchange rate contracts in place.

The Company had the following financial instruments denominated in USD:

	December 31, 2018	December 31, 2017
Cash	97,313	288,873
Trade and other receivables	76,977	518,584
Accounts payable and accrued liabilities	423,709	357,423

(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's secured debentures bear a fixed interest rate (note 10).

The Company has no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2018 and 2017.

15 Commitments

(a) 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.

At December 31, 2018, included in deposits and prepaid expenses is an amount of $40,427 on deposit with the AER associated with the Company's operated wells in Alberta (2017 - $39,790). The AER has indicated that a higher deposit may be required. Since all wells in Alberta are either abandoned or shut-in, the Company has decided to continue negotiations with the AER to bring certain wells back on production to add positive deemed asset valuation.

(b) The Surface Rights Board ("SRB") is a quasi-judicial tribunal in Alberta that has a dispute resolution process to resolve issues of non-payment of surface leases to landowners by oil and gas companies. On September 18, 2018, Marksmen has been served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections in the amount of $86,182 related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010. Marksmen has an Assignment of Surface Rights agreement with the third-party, effective August 1, 2010 whereby the responsibility for the payment of surface leases is with the third party. The third-party does not dispute this agreement in any way and agrees they are responsible for the payment of surface leases – indeed they did make a partial payment to Service Alberta in November 2018.

Marksmen did agree to retain a nominal 1% working interest in the sold properties and act as the operator of the wells on the behalf of the third-party company. Marksmen's position on this judgement is that the assignment of Surface Rights agreements takes precedent while the SRB asserts that the provincial laws governing the SRB places the responsibility on the operator as defined by Alberta law governing SRB and the Alberta Energy Regulator. Marksmen has filed a submission regarding our position and we have not had a ruling by the SRB tribunal.

If a ruling is handed down that is not in Marksmen's favour, then the Company will explore its options. The Company has not accrued these costs since they are currently considered a third-party liability pending an SRB ruling and/or legal advice.

16 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:

		For the year ended December 31, 2018	
	Canada	Unites States	Total
Petroleum and natural gas sales (note 18)	-	1,190,013	1,190,013
Depletion and depreciation	599	322,251	322,850
Net loss and comprehensive loss (income)	989,506	(264,409)	725,097
Exploration and evaluation assets	-	4,545,574	4,545,574
Property, plant and equipment	1,527	2,075,320	2,076,848
Total liabilities	1,661,481	580,471	2,241,952

		For the year ended December 31, 2017	
	Canada	Unites States	Total
Petroleum and natural gas sales	-	1,165,517	1,165,517
Depletion and depreciation	926	430,830	431,756
Net loss and comprehensive loss (income)	767,677	(203,772)	563,905
Exploration and evaluation assets	-	1,736,033	1,736,033
Property, plant and equipment	2,126	2,220,984	2,223,110
Total liabilities	1,633,339	480,957	2,114,296

17 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 and debt. 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 December 31, 2018, the working capital ratio was 0.12:1 (2017 – 0.79:1) (note 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.

18 Revenue

The Company derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time. The Company's revenue is derived entirely through the sale of crude oil.

19 Subsequent events

Subsequent to December 31, 2018, the Company entered into the following transactions:

a) On February 27, 2019 and March 28, 2019, the Company closed a private placement issuing a total of 3,880,000 units for aggregate proceeds of $388,000. Each unit 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 $0.20 per common share for a period of 24 months from issuance. In connection with the private placement, the Company incurred cash share issue costs of $7,600 and issued 56,000 broker warrants. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of $0.10 per common share for a period of 12 months from issuance.

b) On April 4, 2019, the Company granted 1,030,000 stock options to directors, officers, employees and consultants of the Company. The stock options were issued with an exercise price of $0.10 per share, vest as to 1/3 immediately and 1/3 on each of the first and second anniversary dates of the grant. The stock options have a five year term from the date of issuance.