



**MANAGEMENT DISCUSSION AND ANALYSIS**  
**Q3**  
**Report for the three and nine months ended**  
**September 30, 2017**

**TSX Venture Exchange– MAH**  
**New York OTCQB Venture Marketplace – MKSEF**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

This Management’s Discussion and Analysis (“MD&A”) for Marksmen Energy Inc. and its wholly owned subsidiary Marksmen Energy, USA Inc. (“Marksmen or the Company”) is for the three and nine months ended September 30, 2017 and was prepared with information available up to November 27, 2017 and should be read in conjunction with Marksmen Energy Inc.’s consolidated audited financial statements for the year ended, December 31, 2016. All values in this MD&A are expressed in Canadian currency (“CDN”) unless specifically notated as USA currency (“USD”). Certain information regarding Marksmen contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

**Basis of Presentation**

The financial data presented below has been prepared in accordance with International Financial Reporting Standards (“IFRS”).

**Application of Accounting Estimates**

The significant accounting policies used by Marksmen are disclosed in Note 3 of the audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new

information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

## **Non-IFRS**

This MD&A includes the following measures that are from time to time used by the Company, but do not have any standardized meaning under IFRS or GAAP and may not be comparable to similar measures presented by other companies:

**“Funds from operations”** - should not be considered an alternative to, or more meaningful than “cash flow from operating activities” as determined in accordance with IFRS as an indicator of the Company’s financial performance. Funds from operations is determined by adding non-cash expenses to the net income or loss for the period, deducting decommissioning liability expenditures and does not include the change in working capital applicable to operating activities. Management believes that in addition to cash flow from operating activities, funds from operations is a useful supplemental measure as it provides an indication of the results generated by Marksmen’s principal business activities before the consideration of how such activities are financed.

**“Net Petroleum Income or operating netback”** – Net petroleum income or operating netback is calculated by deducting royalties and production expenses, including transportation costs, from revenues.

**“Working capital”** – Working capital includes total current assets and total current liabilities. The working capital ratio is calculated by deducting total current liabilities from total current liabilities.

## **Barrel of Oil Equivalent**

Where amounts are expressed on a barrel of oil equivalent (“boe”) basis, natural gas volumes have been converted to boe at a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. Boe figures may be misleading, particularly if used in isolation.

## **Forward-Looking Statements**

This Management’s Discussion and Analysis may contain “forward-looking information” within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as “plans”, “expects” or “does not expect”, “proposed”, “is expected”, “budgets”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. This forward-looking information reflects the Company’s current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the actual results of drilling and exploration being equivalent to or better than anticipated or historical results and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those

expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: the early stage development of the Company and its projects; general business, economic, competitive, political and social uncertainties; commodity prices; the actual results of current exploration and development or operational activities; competition; changes in project parameters as plans continue to be refined; accidents and other risks inherent in the natural resources industry; lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; conclusions of economic evaluations; and lack of qualified, skilled labour or loss of key individuals. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

## **Introduction**

The primary business of Marksmen is the acquisition, development, and production of crude oil assets from properties located in Ohio, USA.

In 2016 the Company drilled a well at Davis-Holbrook #1, in Pickaway County, Ohio, on a new target delineated by the 2015 seismic program. Marksmen is the operator and has a 75% working interest in this well. To date this well has produced over 28,500 barrels of oil, net 21,380 barrels to Marksmen. The well began producing some water in the spring of 2017. The Company then undertook to install a water disposal line to its water disposal facility at a capital cost of under \$20,000 USD gross. This will eliminate water disposal trucking fees and allow for generally more efficient operations of this very productive well.

In Morrow County, Ohio, Marksmen is participating as a 25% working interest owner in a well operated by Houghton Investments LLP. The well is currently nearing total depth with a target zone in the Trempealeau dolomite formation. The drilling contractor has agreed to participate in the well by paying a substantial portion of the drilling costs to earn a 50% working interest, thereby significantly reducing the overall cost to Marksmen and the operator. Completion costs are expected to be approximately \$49,000 USD net to Marksmen.

In Hocking County, Ohio Marksmen has entered into an agreement for a 40% working interest in a Clinton Sandstone formation horizontal drilling program, operated by Hocking Hills Energy and Well Services LLC. It has the potential to be a multi-well resource play with 10 to 12 potential drilling locations currently identified. The agreement includes an area of mutual interest covering parts of three townships with over 4,000 acres currently under lease. Lease preparation and drilling of the first well is expected to commence in December 2017. The AFE to drill and complete the well is approximately \$1,400,000 USD. The first two wells from the same drilling pad, will each have a horizontal leg of approximately 3,000 feet and will be completed with an estimated 15 stages of hydraulic fracturing.

Marksmen is also currently evaluating offset drilling opportunities on its current land position as well as other lands that have been made available to us from existing partners in Ohio.

To meet capital projects financial requirements, the Company will consider additional equity or debt as well as funds generated from operations. Capital projects will be undertaken as funding is available.

## Quarterly Financial Information

The following is a summary of selected quarterly information that has been derived from the financial statements of Marksmen. This summary should be read in conjunction with audited and unaudited financial statements of the Company as contained in the public record.

| Quarterly Financial Information | Q3<br>2017   | Q2<br>2017   | Q1<br>2017   | Q4<br>2016   | Q3<br>2016   | Q2<br>2016   | Q1<br>2016   | Q4<br>2015   |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Oil Production - bbls           | 3,829        | 5,014        | 5,468        | 5,881        | 4,919        | 626          | 1,029        | 1,095        |
| Revenue - oil                   | \$ 220,011   | \$ 319,955   | \$ 366,804   | \$ 376,797   | \$ 284,497   | \$ 37,473    | \$ 45,209    | \$76,313     |
| Royalties                       | \$ (28,881)  | \$ (41,751)  | \$ (47,835)  | \$ (49,114)  | \$ (37,001)  | \$ (4,888)   | \$ (5,920)   | \$ (9,728)   |
| Net revenue after royalties     | \$ 191,130   | \$ 278,204   | \$ 318,969   | \$ 327,683   | \$ 247,496   | \$ 32,585    | \$ 39,289    | \$ 66,585    |
| Operating expenses              | \$ (35,825)  | \$ (28,368)  | \$ (29,363)  | \$ (32,656)  | \$ (40,513)  | \$ (25,126)  | \$ (30,975)  | \$ (37,537)  |
| Net Petroleum Income            | \$ 155,305   | \$ 249,836   | \$ 289,606   | \$ 295,027   | \$ 206,983   | \$ 7,459     | \$ 8,314     | \$ 29,048    |
| Total Assets                    | \$ 4,559,104 | \$ 4,690,786 | \$ 4,817,812 | \$ 4,723,592 | \$ 3,979,480 | \$ 4,090,939 | \$ 3,644,261 | \$ 3,984,231 |
| Total Liabilities               | \$ 1,769,968 | \$ 1,725,380 | \$ 1,831,835 | \$ 1,829,139 | \$ 1,877,672 | \$ 1,976,715 | \$ 2,046,864 | \$ 2,000,119 |
| Shareholders' Equity            | \$ 2,789,136 | \$ 2,965,406 | \$ 2,985,977 | \$ 2,894,453 | \$ 2,101,808 | \$ 2,114,224 | \$ 1,597,397 | \$ 1,984,112 |
| Shares issued & outstanding     | 83,352,932   | 82,387,932   | 80,550,432   | 79,200,432   | 77,740,432   | 77,740,432   | 63,593,152   | 63,593,152   |

## Oil Production – Ohio

| Oil Production - Ohio  | Three Months Ended |               |               |        | Nine Months Ended |               |               |        |          |
|------------------------|--------------------|---------------|---------------|--------|-------------------|---------------|---------------|--------|----------|
|                        | Net to Marksmen    | Sep. 30, 2017 | Sep. 30, 2016 | Change | % Change          | Sep. 30, 2017 | Sep. 30, 2016 | Change | % Change |
| Barrels of oil         | 3,829              | 4,119         | (290)         | (7)    | 14,311            | 6,574         | 7,737         | 118    |          |
| Barrels of oil per day | 41.6               | 44.8          |               |        | 52.4              | 24.0          |               |        |          |

**Production** – The Davis-Holbrook #1 well was drilled in June of 2016 and put on production in mid-July of that year. This well has contributed significantly to the revenue of the Company since that time. Production from this well to September 30, 2017 totals 28,515 barrels gross or 21,386 barrels net to Marksmen.

**Optimization** – In mid-February of 2017, the well at Delong-Davis #1 was deepened by approximately 20 feet to expose more of the producing zone. Production has improved in 2017 from as low as 2 barrels per day to a high of 30 gross barrels per day or 13.5 net barrels to Marksmen. At Davis-Holbrook, with declining production of currently producing zones, the Company will evaluate the option of completing other zones higher in the formation. The Company is reviewing other optimization opportunities with existing wells.

## Alberta

Marksman's wells at Alder Flats in Alberta have been shut-in since 2010. Of these six wells, one well was abandoned at the time of drilling and four other wells were abandoned in August 2015. Equipment salvage operations from the abandoned wells began in 2016 and will be completed in late 2017. Reclamation will begin on one or two of the leases in 2018. The remaining well at Alder Flats is suspended and has not been abandoned.

## Net Petroleum Income – Ohio, USA in \$USD

| Net Petroleum Income \$USD        | Three Months Ended |               |            |          | Nine Months Ended |               |             |          |
|-----------------------------------|--------------------|---------------|------------|----------|-------------------|---------------|-------------|----------|
|                                   | Sep. 30, 2017      | Sep. 30, 2016 | Change     | % Change | Sep. 30, 2017     | Sep. 30, 2016 | Change      | % Change |
| <b>Oil Production - bbls</b>      | <b>3,829</b>       | 4,919         | (\$1,090)  | (22)     | <b>14,311</b>     | 6,574         | 7,737       | 118      |
| Revenue                           | \$ 178,871         | \$ 215,712    | (\$36,841) | (17)     | \$ 693,567        | \$ 277,893    | \$ 415,675  | 150      |
| Royalty expense                   | \$ (23,472)        | \$ (28,055)   | \$4,583    | (16)     | \$ (90,613)       | \$ (36,183)   | \$ (54,430) | 150      |
|                                   | \$ 155,399         | \$ 187,657    | (\$32,258) | (17)     | \$ 602,955        | \$ 241,710    | \$ 361,245  | 149      |
| Operating costs                   | \$ (25,192)        | \$ (26,060)   | \$868      | (3)      | \$ (64,629)       | \$ (61,957)   | (2,672)     | 4        |
| <b>Net Petroleum Income</b>       | \$ 130,207         | \$ 161,597    | (\$31,390) | (19)     | \$ 538,326        | \$ 179,752    | \$ 358,573  | 199      |
| <b>Revenue / bbl</b>              | \$ 46.71           | \$ 43.85      |            |          | \$ 48.46          | \$ 42.27      |             |          |
| Royalty Expense / bbl             | \$ (6.13)          | \$ (5.70)     |            |          | \$ (6.33)         | \$ (5.50)     |             |          |
| Operating costs / bbl             | \$ (6.58)          | \$ (5.30)     |            |          | \$ (4.52)         | \$ (9.42)     |             |          |
| <b>Net Petroleum Income / bbl</b> | <b>34.01</b>       | 32.85         |            |          | <b>37.62</b>      | 27.34         |             |          |

As per the chart above, the Company's production in the third quarter of 2017 fell by 1,090 barrels compared to the same period in 2016. This has resulted in reduced net petroleum income in the same period of \$36,841. The first nine months of 2017 have total production greater by 7,737 barrels and \$415,675 higher net petroleum revenue compared to the same period of 2016 directly attributable to the production from the Davis-Holbrook well and the Delong-Davis workover.

## Net Petroleum Income – in \$CDN

| Net Petroleum Income \$CDN        | Three Months Ended |               |            |          | Nine Months Ended |               |             |          |
|-----------------------------------|--------------------|---------------|------------|----------|-------------------|---------------|-------------|----------|
|                                   | Sep. 30, 2017      | Sep. 30, 2016 | Change     | % Change | Sep. 30, 2017     | Sep. 30, 2016 | Change      | % Change |
| <b>Oil Production - bbls</b>      | <b>3,829</b>       | 4,919         | (\$1,090)  | (22)     | <b>14,311</b>     | 6,574         | 7,737       | 118      |
| Revenue                           | \$ 220,011         | \$ 284,497    | (\$64,486) | (23)     | \$ 906,770        | \$ 367,179    | \$ 539,591  | 147      |
| Royalty expense                   | \$ (28,881)        | \$ (37,001)   | \$8,120    | (22)     | \$ (118,467)      | \$ (47,809)   | \$ (70,658) | 148      |
|                                   | \$ 191,130         | \$ 247,496    | (\$56,366) | (23)     | \$ 788,303        | \$ 319,370    | \$ 468,933  | 147      |
| Operating costs                   | \$ (36,025)        | \$ (40,513)   | \$4,488    | (11)     | \$ (93,756)       | \$ (96,614)   | 2,858       | (3)      |
| Net Petroleum Income              | \$ 155,105         | \$ 206,983    | (\$51,878) | (25)     | \$ 694,547        | \$ 222,756    | \$ 471,791  | 212      |
| <b>Revenue / bbl</b>              | \$ 57.46           | \$ 57.84      |            |          | \$ 63.36          | \$ 55.85      |             |          |
| Royalty Expense / bbl             | \$ (7.54)          | \$ (7.52)     |            |          | \$ (8.28)         | \$ (7.27)     |             |          |
| Operating costs / bbl             | \$ (9.41)          | \$ (8.24)     |            |          | \$ (6.55)         | \$ (14.70)    |             |          |
| <b>Net Petroleum Income / bbl</b> | <b>40.51</b>       | 42.08         |            |          | <b>48.53</b>      | 33.88         |             |          |

**Oil Production** – decreased in the third quarter of 2017 by 1,090 barrels compared to the same period in 2016. In the first nine months of 2017 the production was 14,311 barrels compared to 6,574 barrels in the same period of 2016.

**Oil Revenue** - for the quarter ended September 30, 2017 decreased by 23% compared to the same quarter in 2016. For the nine months ending September 30, 2017 the increase in revenue was 2.5 times greater than in the same period of 2016. Revenue is paid to Marksmen or our partners directly by the oil marketing company, net of royalties. The payment is based on West Texas Intermediate oil (“WTI”) prices.

**Royalties** - are paid by the oil marketing company at 12.5% of revenue to the land owners of record as determined by Marksmen. There are no royalties paid to the state of Ohio but rather an oil severance tax \$0.20 per barrel.

**Operating Expenses** – for the three months ended September 30, 2017 operating costs were \$36,025 compared to \$40,513 in the same period of 2016. The wells operating costs in Ohio were higher due to approximately \$10,000 additional water hauling costs of approximately \$7,900 from the Davis Holbrook well which will be eliminated in the fourth quarter with the completion of construction of a water disposal line. Included in the operating costs for the nine months of 2017 and 2016 are \$9,260 and \$14,750 respectively associated with lease rentals and property taxes for Marksmen owned wells that are shut-in but not reclaimed in Alberta.

**Net Petroleum Income** – was \$155,105 in the third quarter of 2017 compared to \$206,983 in the same period of 2016, a decrease of \$51,878 related to reduced production. In the nine months ended September 30, 2017 the net petroleum income was \$694,547 compared to \$222,756 an increase of \$471,791.

**Per Barrel** – Revenues per barrel in \$CDN are in the \$57 plus range, royalties are approximately \$8 per barrel and operating costs are \$9 yielding a net income or net-back per barrel of approximately \$41.

## General and Administrative Expenses

| General & Administrative Expenses  | Three Months Ended |               |           |          | Nine Months Ended |               |            |          |
|------------------------------------|--------------------|---------------|-----------|----------|-------------------|---------------|------------|----------|
|                                    | Sep. 30, 2017      | Sep. 30, 2016 | Change    | % Change | Sep. 30, 2017     | Sep. 30, 2016 | Change     | % Change |
| Employee Compensation              | \$ 31,490          | \$ 30,126     | \$ 1,364  | 5        | \$ 95,113         | \$ 91,469     | \$ 3,644   | 4        |
| Management consulting services     | \$ 29,980          | \$ 26,500     | \$ 3,480  | 13       | \$ 87,950         | \$ 97,650     | \$ -9,700  | (10)     |
| Professional fees                  | \$ 23,690          | \$ 28,146     | \$ -4,456 | (16)     | \$ 51,141         | \$ 61,019     | \$ -9,878  | (16)     |
| Investor relations and conferences | \$ 9,958           | \$ 13,410     | \$ -3,452 | (26)     | \$ 44,822         | \$ 54,885     | \$ -10,063 | (18)     |
| Filing and listing fees            | \$ 8,888           | \$ 14,852     | \$ -5,964 | (40)     | \$ 18,908         | \$ 28,088     | \$ -9,180  | (33)     |
| Ohio administrative expenses       | \$ 8,777           | \$ 3,747      | \$ 5,030  | 134      | \$ 26,391         | \$ 22,182     | \$ 4,209   | 19       |
| Office and Storage                 | \$ 11,250          | \$ 7,500      | \$ 3,750  | -        | \$ 30,000         | \$ 22,500     | \$ 7,500   | 33       |
| General and administrative         | \$ 19,895          | \$ 23,067     | \$ -3,172 | (14)     | \$ 60,482         | \$ 65,434     | \$ -4,952  | (8)      |
|                                    | \$ 143,928         | \$ 147,348    | \$ -3,420 | (2)      | \$ 414,807        | \$ 443,227    | \$ -28,420 | (6)      |

The Company has divided its administrative expenses into categories as described below:

**Employee Compensation** – represents payments of salaries and wages to one full time management employee and two part-time administrative support personnel.

**Management Consulting Fees** - are related to fees to a professional corporation of a senior executive for services related to the overall management of the Company. The executive has consistently invested in the private placements of the Company (see related parties section).

**Professional Fees** – consists of legal fees, reserve engineering, audit and accounting services. Legal fees associated with private placements are charged against share issue costs.

**Investor Relations and Conferences** – To raise capital for the opportunities in Ohio, management continues to attend various events and holds numerous meetings with many contacts in the investor community.

**Filing and Listing Costs** – These costs are directly associated with costs of being a public company in Canada. They include annual fees and charges from stock exchanges, provincial securities commissions, and a stock transfer agent.

**Ohio Administrative Expenses** – Marksmen’s business activities in 2017 continue to be focused on developing its oil and gas operations in Ohio. Approximately two-thirds of Ohio management costs are directly attributable to evaluation of exploration opportunities and drilling or workover activities and are therefore capitalized. The remaining management costs are included in G&A.

**Office Rent and Storage** - Include costs associated with office space in Calgary, storage of Company files, etc.

**General and Administrative Expenses** – The normal day to day costs of running the Company are covered in this category including telephones, insurance (directors, property and general liability) and accounting software fees.

## Selected Other Expenses

**Interest Expense** – During the third quarter of 2017 the Company incurred interest related to a secured debenture of \$37,809 with a total for the first nine months of the year being \$112,192. The Company paid its scheduled payment in June 2017 and has met all its semi-annual interest payments to date.

**Depletion** – In the third quarter of 2017 depletion and depreciation was \$72,645 with 3,829 barrels oil produced compared to \$72,941 with 4,119 barrels of oil produced in the same period of 2016. In the nine months ended September 30, 2017 the depletion totaled \$331,521 with 14,311 barrels of oil produced compared to \$125,258 with 6,574 barrels of oil produced. Depletion in 2017 equates to approximately \$23 per barrel.

## Financial Position – Highlights

| Period Ended                               | Sep. 30, 2017       | Dec. 31, 2016       | Change              | % Change     |
|--|---------------------|---------------------|---------------------|--------------|
| <b>Assets</b>                              |                     |                     |                     |              |
| Cash                                       | \$ 529,787          | \$ 116,806          | \$ 412,981          | 353.6        |
| Receivables and deposits                   | \$ 142,104          | \$ 233,282          | \$ -91,178          | (39.1)       |
| Exploration and evaluation assets          | \$ 1,723,311        | \$ 1,736,916        | \$ -13,605          | (0.8)        |
| Property and equipment                     | \$ 2,163,902        | \$ 2,636,588        | \$ -472,686         | (17.9)       |
|  | <u>\$ 4,559,104</u> | <u>\$ 4,723,592</u> | <u>\$ -164,488</u>  | <u>(3.5)</u> |
| <b>Liabilities</b>                         |                     |                     |                     |              |
| Accounts payable and accruals              | \$ 167,759          | \$ 223,715          | \$ (55,956)         | (25.0)       |
| Decommissioning liabilities                | \$ 363,291          | \$ 372,360          | \$ (9,069)          | (2.4)        |
| Secured debenture                          | \$ 1,238,918        | \$ 1,233,064        | \$ 5,854            | 0.5          |
|  | <u>\$ 1,769,968</u> | <u>\$ 1,829,139</u> | <u>\$ (59,171)</u>  | <u>(3.2)</u> |
| <b>Equity</b>                              |                     |                     |                     |              |
| Share capital, contributed surplus & other | \$ 22,693,034       | \$ 22,575,862       | \$ 117,172          | 0.5          |
| Deficit                                    | \$ (19,903,898)     | \$ (19,681,409)     | \$ (222,489)        | 1.1          |
|  | <u>\$ 2,789,136</u> | <u>\$ 2,894,453</u> | <u>\$ (105,317)</u> | <u>(3.6)</u> |
|  |                     |                     | \$ -                |              |
| <b>Liabilities and equity</b>              | <u>\$ 4,559,104</u> | <u>\$ 4,723,592</u> | <u>\$ (164,488)</u> | <u>(3.5)</u> |

**Assets** – Cash on hand in the first nine months of 2017 increased by \$412,981 compared to the year ended December 31, 2016. Property and equipment assets reduced due to depletion.

**Liabilities** – Accounts payable in the first nine months of 2017 reduced by 25% while other liabilities remained constant compared to year end December 31, 2016.

**Equity** – decreased in the first nine months of 2017 by \$105,317 or 3.6% compared to year end of December 31, 2016.

## **Capital Expenditures**

Exploration and Evaluation expenditures total \$80,530 in the first nine months of 2017 which includes additions for the quarter ended September 30, 2017 of \$16,832 related to Marksmen's share for the drilling portion of the Linnabary #1 well currently being drilled in Morrow County. It also includes the capitalized cost of Ohio based management of \$14,831 and share based compensation of \$2,695.

Property and Equipment additions total \$29,049 in the first nine months of 2017 which includes additions in the third quarter of 2017 of \$9,114 for the water disposal line from the Davis-Holbrook well to the Company's water disposal facility.

## **Decommissioning Liabilities**

The Company has estimated the net present value of the decommissioning liabilities to be \$363,291 as at September 30, 2017 (December 31, 2016 - \$372,360). The total undiscounted amount of estimated future cash flows is \$382,995 (December 31, 2016 - \$387,604). These payments are expected to be made over the next 12 years. The obligations on the Canadian properties have been calculated using an inflation rate of 2% (December 31, 2016 – 2%) and a discount factor, being the risk-free rate related to the liability, of 1.51% - 2.40% (December 31, 2016 – 0.73% - 1.02%). The obligations on the US properties have been calculated using an inflation rate of 2% (December 31, 2016 – 2%) and a discount factor, being the risk-free rate related to the liability of 1.68% - 1.98% (December 31, 2016 – 1.02% - 1.47%).

During the year ended December 31, 2015, the Company completed the abandonment of five of six its Canadian petroleum and natural gas assets. The remaining well is suspended. Reclamation of these assets has not yet occurred.

## **Secured Debenture**

On June 28, 2013, the Company closed a secured debenture for gross proceeds of \$750,000. As of September 30, 2017, the Company has incurred \$383,312 of interest expense (December 31, 2016 - \$315,997), of which \$67,315 was incurred during the nine months ended September 30, 2017.

On June 19, 2015, the Company closed an additional secured debenture for gross proceeds of \$500,000. As of September 30, 2017, the Company has incurred \$137,260 (December 31, 2016 - \$92,383) of interest expense, of which \$44,877 was incurred during the nine months ended September 30, 2017.

Marksmen is current on its debenture interest payments with the most recent payment made on June 30, 2017.

## Share Capital

| <b>Share Capital</b> | <b>Quarter ended<br/>Sep. 30, 2017</b> | <b>Year Ended<br/>Dec. 31, 2016</b> | <b>Change</b> | <b>% Change</b> | <b>As of<br/>Nov. 27, 2017</b> |
|----------------------|--|-------------------------------------|---------------|-----------------|--------------------------------|
| Common Shares        | <b>83,352,932</b>                      | 79,200,432                          | 4,152,500     | 5.2             | 83,552,932                     |
| Warrants             | <b>6,945,995</b>                       | 11,999,100                          | (5,053,105)   | (42.1)          | 7,045,995                      |
| Stock Options        | <b>7,996,667</b>                       | 7,421,667                           | 575,000       | 7.7             | 7,996,667                      |

There was a total of 4,152,500 shares issued in private placements during the first nine months of 2017, including 965,000 that were issued on August 28, 2017 during the third quarter. Subsequent to September 30, 2017 an additional 200,000 shares were issued on October 27, 2017 under the terms of a private placement.

In the first six months of 2017 a total of 7,129,355 warrants expired. A total of 2,076,250 warrants were issued pursuant to private placements in the first nine months, of which 482,500 were issued in the third quarter. Subsequent to September 30, 2017 an additional 100,000 warrants were granted under the terms of a private placement.

In the first six months of 2017 the Company granted 575,000 stock options to directors, officers and consultants. The stock options granted are exercisable at \$0.10 per share, and vest as to 1/3 immediately and 1/3 on each of the first and second anniversaries of the grant date. There were no stock options granted in the third quarter of 2017.

## Related Party Transactions

### During the three months ended September 30, 2017

An aggregate of \$29,980 (September 30, 2016 - \$26,500) 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 \$7,500 (September 30, 2016 - \$7,500) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of \$14,292 USD (September 30, 2016 - \$22,931 USD) in consulting fees and related costs were paid to a director and officer, Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

Aggregate legal fees of \$6,091 (September 30, 2016 - \$9,796) were charged by a law firm in which a director of the Company is a partner, of which \$1,537 (September 30, 2016 - \$9,796) were expensed as general and administrative expenses and \$4,554 (September 30, 2016 - \$nil) were charged to share capital as share issue costs.

### **During the nine months ended September 30, 2017**

An aggregate of \$87,950 (September 30, 2016 - \$97,650) 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 \$22,500 (September 30, 2016 - \$22,500) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of \$49,907 USD (September 30, 2016 - \$46,987 USD) in consulting fees and related costs were paid to a director and officer, Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

Aggregate legal fees of \$22,343 (September 30, 2016 - \$41,936) were charged by a law firm in which a director of the Company is a partner, of which \$12,953 (September 30, 2016 - \$19,035) were expensed as general and administrative expenses and \$9,390 (September 30, 2016 - \$22,902) were charged to share capital as share issue costs.

As at September 30, 2017, the Company has accounts payable and accrued liabilities totaling \$24,282 (December 31, 2016 – \$45,134) owing to related parties relating to the above transactions.

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

### **Commitment**

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 September 30, 2017, included in deposits and prepaid expenses is an amount of \$39,668 on deposit with the AER associated with the Company’s wells in Alberta (December 31, 2016 - \$39,358). The AER has indicated that a higher deposit may be required. Since all wells in Alberta are either abandoned or shut-in, the Company is continuing negotiations with the AER.

## Financial Risk Management

**Going Concern** – At September 30, 2017, the Company had not yet achieved profitable operations, had accumulated a deficit of \$19,903,898 since its inception (December 31, 2016 - \$19,681,409), and may incur further losses in the development of its business. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing, global commodity pricing or continued profitable operations in the future. The Company successfully completed three private placements during the nine months ended September 30, 2017 (note 7(b)). Management is committed to raising additional capital to achieve its intended development, however, additional equity financing is subject to the global financial markets and economic conditions, which have recently been disrupted and are volatile, and the debt and equity markets, which have been distressed, particularly for junior petroleum and natural gas companies. Any adjustments necessary to the consolidated financial statements if the Company ceases to be a going concern could be material.

**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 September 30, 2017, the Company's accounts receivable consisted of \$78,191 (December 31, 2016 - \$167,556) from petroleum and natural gas companies and \$4,275 (December 31, 2016 - \$6,154) related to goods and service tax owing from the Government of Canada. \$77,080 of the Company's receivables are held with one party and are collected 10 days subsequent to the production period end. Other receivables from joint venture partners are typically collected within one to two months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

## Subsequent Events

On October 27, 2017, the Company completed a private placement issuing 200,000 units (the "Unit") for aggregate proceeds of \$16,000. 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 \$0.25 per common share for a period of 24 months from issuance.

On November 23, 2017 the company concluded an agreement with Hocking Hills Energy and Well Services LLC. to participate as a 40% working interest partner in a horizontal well drilling program in Hocking County, Ohio.

## **Outlook**

In Morrow County, Ohio Marksmen is participating as a 25% working interest owner in a well operated by Houghton Investments LLP. The well is currently nearing total depth with a target zone in the Trempealeau Dolomite formation. The drilling contractor has agreed to participate in the well by paying a substantial portion of the drilling costs to earn a 50% working interest, thereby significantly reducing the overall cost to Marksmen and the operator. Completion costs are expected to be approximately \$49,000 USD net to Marksmen.

In Hocking County, Ohio Marksmen has entered into an agreement for a 40% working interest in a Clinton Sandstone formation horizontal drilling program, operated by Hocking Hills Energy and Well Services LLC. It has the potential to be a multi-well resource play with 10 to 12 potential drilling locations currently identified. The agreement includes an area of mutual interest covering parts of three townships with over 4,000 acres currently under lease. Lease preparation and drilling of the first well is expected to commence in December 2017. The AFE to drill and complete the well is approximately \$1,400,000 USD. The first two wells from the same drilling pad will each have a horizontal leg of approximately 3,000 feet and will be completed with an estimated 15 stages of hydraulic fracturing.

Marksmen is also currently evaluating offset drilling opportunities on its current land position in Pickaway County Ohio, as well as other lands that have been made available to us from existing partners in Ohio.

Capital projects will be undertaken as funding is available.

Marksmen is optimistic that the capital projects in Morrow and Hocking Counties, Ohio will lead to a strong, viable financial position for the Company in 2018 and years to come.

## **Other**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) or at [info@marksmen.ca](mailto:info@marksmen.ca). Marksmen is listed on the TSX Venture Exchange under the symbol "MAH" and on the New York OTCQB Venture Marketplace under the symbol "MKSEF"