



Q3

TSX Venture – MAH

Report for the three and nine months ended

New York OTC Venture Marketplace – MKSEF

September 30, 2020

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2020 and was prepared with information available up to Nov 25, 2020 and should be read in conjunction with Marksmen Energy Inc.’s consolidated audited financial statements for the year ended, December 31, 2019. All values in this MD&A are denominated in Canadian currency (“CAD”) 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 measure that is used by the Company, but does not have any standardized meaning under IFRS and may not be comparable to similar measures presented by other companies:

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.

Operating netback

Operating netback is not a standardized measurement in accordance with IFRS. Operating netback is calculated by deducting royalties and production expenses, including transportation costs, from revenues. It is calculated on a boe basis. Operating netback is useful in calculating field performance for internal management purposes.

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.

Covid-19 Pandemic

The Covid-19 pandemic has impacted how we all work and live. Until appropriate medical treatments and vaccines are widely available, Marksmen will continue to proceed cautiously with social distancing and adherence to all applicable medical and legal guidelines and will encourage all vendors to do the same. In Ohio, the oil and gas industry is considered an essential service, therefore operations and capital projects will continue in 2020 but the application of cautious guidelines by all businesses are impactful, resulting in a less efficient environment.

Introduction

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

In the second quarter of 2020, Marksmen settled a legal action initiated by Hocking Hills Energy and Well Services LLC (“HHE”) related to the drilling of the Leaman #1 horizontal well in Ohio. In the settlement agreement HHE relinquished claims related to goods and services they provided of approximately \$250,000 CAD and also paid an additional \$100,000 CAD related to counter claims. Marksmen assigned its working interest ownership in the well to HHE in exchange for an overriding royalty interest.

In late 2019 Marksmen executed a Joint Operating Agreement (“JOA”) with PEP Drilling LLC., of Ohio, to recomplete up to 40 wells in the Clinton Sandstone formation, previously by-passed when drilling deeper wells. The wells are in Portage County, Ohio and come with all the necessary infrastructure including surface and downhole equipment. Each well recompletion will take approximately two to three weeks from start to the beginning of production. The first well was completed in the June of 2020 and put on production in July.

The second recomplete well, is in the final planning stages waiting on the operator to complete required work on title and outstanding items required by the Ohio Department of Natural Resources (ODNR). Due to personnel constraints caused by Covid-19, the service rig and other equipment are not available until late December 2020 or early January 2021.

To complete capital projects, the Company will consider additional equity by way of private placements, other financial instruments and the use of 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. This summary should be read in conjunction with audited and unaudited financial statements of the Company as contained in the public record.

Selected Quarterly Information	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Net oil production - bbls	2,018	1,061	1,327	824	2,410	2,109	2,031	3,070
Net oil production - bbls/day	21.9	11.7	14.6	9.0	26.2	23.2	22.6	33.4
Oil price paid /bbl (\$CAD)	\$ 53.33	\$ 40.89	\$ 61.34	\$ 72.00	\$ 72.76	\$ 77.81	\$ 70.73	\$ 77.92
WTI price /bbl (\$USD)	\$ 39.75	\$ 29.11	\$ 45.61	\$ 55.02	\$ 55.06	\$ 58.20	\$ 53.18	\$ 58.63
Amounts Below are in \$CAD								
Revenue - oil	\$ 107,613	\$ 43,389	\$ 81,393	\$ 59,295	\$ 175,352	\$ 164,094	\$ 143,647	\$ 239,204
Royalties	\$ (15,045)	\$ (5,870)	\$ (10,781)	\$ (7,910)	\$ (22,888)	\$ (21,484)	\$ (18,945)	\$ (31,244)
Operating expenses	\$ (18,052)	\$ (12,727)	\$ (12,203)	\$ (90,266)	\$ (24,360)	\$ (40,590)	\$ (28,405)	\$ (36,931)
Income (loss) from operations	\$ 74,516	\$ 24,792	\$ 58,409	\$ (38,881)	\$ 128,104	\$ 102,020	\$ 96,297	\$ 171,029
Net Income (Loss)	\$ (107,115)	\$ 20,767	\$ (359,908)	\$ (3,230,835)	\$ (164,562)	\$ (198,364)	\$ (285,629)	\$ (275,620)
Total assets	\$ 4,147,678	\$ 4,285,644	\$ 4,238,388	\$ 4,111,593	\$ 6,898,200	\$ 6,786,352	\$ 6,831,801	\$ 6,881,026
Total liabilities	\$ 1,987,832	\$ 2,321,139	\$ 2,271,287	\$ 2,232,667	\$ 2,114,862	\$ 2,010,856	\$ 2,098,838	\$ 2,241,952
Total shareholder's equity	\$ 2,159,846	\$ 1,964,505	\$ 2,012,101	\$ 1,878,926	\$ 4,783,338	\$ 4,775,496	\$ 4,732,963	\$ 4,639,074
Total liabilities & equity	\$ 4,147,678	\$ 4,285,644	\$ 4,283,388	\$ 4,111,593	\$ 6,898,200	\$ 6,786,352	\$ 6,831,801	\$ 6,881,026
Common shares outstanding	124,002,870	117,117,870	117,117,870	113,237,590	107,993,590	106,713,590	100,813,590	96,736,643

Marksmen’s Q3, 2020 results for production, bbls/day, revenue, and income from operations are its best in four quarters.

Field Operations and Netback – Ohio USA in \$USD

\$USD	Three Months Ended				Nine Months Ended			
	Sep 30 2020	Sep 30 2019	Change	% Change	Sep 30 2020	Sep 30 2019	Change	% Change
Oil Production - bbls	2,018	2,410	(392)	(16)	4,405	6,550	(2,145)	(33)
Revenue	\$ 80,214	\$ 132,687	\$ -52,473	(40)	\$ 171,623	\$ 363,446	\$ (191,823)	(53)
Royalty expense	\$ (11,211)	\$ (17,320)	\$ 6,109	(35)	\$ (23,408)	\$ (47,636)	\$ 24,228	(51)
	\$ 69,003	\$ 115,367	\$ -46,364	(75)	\$ 148,215	\$ 315,810	\$ (167,595)	(53)
Operating costs	\$ (10,820)	\$ (15,743)	\$ 4,923	(31)	\$ (26,573)	\$ (57,694)	\$ 31,121	(54)
Net operating incom	\$ 58,183	\$ 99,624	\$ -41,441	(42)	\$ 121,642	\$ 258,116	\$ -136,474	(53)
Revenue / bbl	\$ 39.75	\$ 55.06	\$ -15.31	(28)	\$ 38.96	\$ 55.49	\$ -16.53	(30)
Royalty Expense / bbl	\$ (5.56)	\$ (7.19)	\$ 1.63	(23)	\$ (5.31)	\$ (7.27)	\$ 1.96	(27)
Operating costs / bbl	\$ (5.36)	\$ (6.53)	\$ 1.17	(18)	\$ (6.03)	\$ (8.81)	\$ 2.78	(32)
Netback from Operations/bbl	28.83	41.34	\$ -12.51	(30)	27.61	39.41	\$ -11.79	(30)

Production – Total Company production in the third quarter of 2020 was 2,018 barrels compared to 2,410 in Q3 of 2019, a decrease of 392 barrels or 16%. Production in the first nine months of 2020 was 4,405 bbls, a reduction of 2,145 bbls and 33% compared to the first nine months of 2019.

Marksmen, in conjunction with Pep Drilling LLC, the operator, has completed its first Clinton Sandstone bypass recompletion well, Meredith #1, in Portage County, Ohio. Marksmen was the operator during the capital recompletion work in June; then operations reverted to PEP once the well was put on production in July 2020. PEP has been very conservative in their technical management of the well with production at approximately 11 bbls of oil and 30mcf or 5 boe per day of natural gas. The casing pressure is set at 450 psi with a pumpjack stroke cycling at 4 hours on and 2 hours off. As of November 20, 2020, the operator has now agreed to Marksmen's recommendations to reduce the casing pressure by 50 psi. and to up the cycle times. Marksmen anticipates that these change in operational procedures will result in higher production of oil and natural gas.

Production, price and revenue trend by month – In the first nine months of 2020 oil prices ranged from a high of \$57 per barrel WTI (\$USD) to a low of \$22 in April, in the \$40 range in the third quarter and currently in the \$45/bbl. range. Oil production has increased from a low of 312 barrels in April to 705 barrels in September. Production is trending up from a low of 10 bbls/day to over 23 bbls/day in September. With increased production in the third quarter from the Meredith well and from the Davis Holbrook well the Company anticipates the upward trend to continue through the end of 2020 and into 2021.

\$USD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Oil price paid / bbl. -WTI	\$ 56.98	\$ 49.75	\$ 29.60	\$ 22.08	\$ 27.68	\$ 38.31	\$ 38.65	\$ 41.14	\$ 39.06
Oil - bbls	444.9	449.9	432.1	312.1	324.3	424.0	628.0	684.0	705.0
Revenue per month	\$ 25,348	\$ 22,380	\$ 12,790	\$ 6,891	\$ 8,975	\$ 16,243	\$ 24,272	\$ 28,140	\$ 27,537
bbls / day	14.8	15.0	14.4	10.4	10.8	14.1	20.9	22.8	23.5

Well Information - Ohio – In the second quarter of 2020 Marksmen participated in the re-completion of the Meredith #1 well located in Portage County, Ohio. The well was completed in June and was put on production in July. The next re-complete well is delayed due to constraints on equipment availability and service company personnel shortages, all related to the Covid-19 pandemic.

Well Information	Q3 2020		Q3 2019	
	Gross Wells	Net Marksmen	Gross Wells	Net Marksmen
Production testing	-	-	1.0	0.6
Producing wells	3.00	1.85	3.00	2.45
Water injection well	1.00	1.00	1.00	1.00
Shut-in wells	2.00	1.50	2.00	1.50

As of November 24, 2020, one of the two shut in wells has had a bottom hole pump changed and will be returned to production. The other shut-in well is currently having repairs made to down hole equipment.

Production Improvement and Optimization Plans

- At the Company’s Strittmatter location Marksmen used a service rig to change out the bottom hole pump and put the well back on production.
- At BJ78-11, work to repair a parted sucker rod and to inspect/replace the down-hole pump is underway and should be completed within a few days. Then the well will be put back on production.
- In late October, at Davis-Holbrook, the Company’s best well, the casing pressure was reduced by a small amount and the production from the well increased by approximately 10 barrels of oil per day.
- At Pickaway County there are five or more offset locations: two or possibly three at Davis-Holbrook, one at Strittmatter, and one at Delong-Davis. These locations are located on lands covered by the Company’s existing 3D seismic.

Alberta

Marksmen’s wells at Alder Flats in Alberta have not produced oil or gas 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 was completed in 2018 and reclamation work will continue, depending on funding, in 2020 and 2021.

The remaining well at Alder Flats has not been abandoned but is shut in. In August 2019, Marksmen entered into an agreement to sell certain mineral rights associated with this well at Alder Flats in exchange for the third party completing the abandonment of essentially all of Marksmen’s pipelines in the Alder Flats area.

There was \$3,575 of field operating costs, related to surface leases and property taxes expensed to wells in Alberta during the third quarter of 2019 totaling \$6,999 for the first three quarters of 2019.

Field Operations – Ohio and Alberta – Stated in \$CAD

\$CAD	Three Months Ended				Nine Months Ended			
	Sep 30 2020	Sep 30 2019	Change	% Change	Sep 30 2020	Sep 30 2019	Change	% Change
Oil Production - bbls	2,018	2,410	(392)	(16)	4,405	6,550	(2,145)	(33)
Revenue	\$ 107,613	\$ 175,352	\$ (67,739)	\$ (39)	\$ 232,395	\$ 483,093	\$ (250,698)	\$ (52)
Royalty expense	\$ (15,045)	\$ (22,888)	\$ 7,843	\$ (34)	\$ (31,696)	\$ (63,317)	\$ 31,621	\$ (50)
	\$ 92,568	\$ 152,464	\$ (59,896)	\$ (73)	\$ 200,699	\$ 419,776	\$ (219,077)	\$ (52)
Operating costs	\$ (18,052)	\$ (24,360)	\$ 6,308	\$ (26)	\$ (42,982)	\$ (93,355)	\$ 50,373	\$ (54)
Net Operating Income	\$ 74,516	\$ 128,104	\$ (53,588)	\$ (42)	\$ 157,717	\$ 326,421	\$ (168,704)	\$ (52)
Revenue / bbl	\$ 53.33	\$ 72.76	\$ (19.43)	\$ (26.71)	\$ 52.76	\$ 73.75	\$ (21.00)	\$ (28.47)
Royalty Expense / bbl	\$ (7.46)	\$ (9.50)	\$ 2.04	\$ (21.50)	\$ (7.20)	\$ (9.67)	\$ 2.47	\$ (25.56)
Operating costs / bbl	\$ (8.95)	\$ (10.11)	\$ 1.16	\$ (11.50)	\$ (9.76)	\$ (14.25)	\$ 4.50	\$ (31.54)
Netback from Operations/bbl	\$ 36.93	\$ 53.16	\$ (16.23)	\$ (30.53)	\$ 35.80	\$ 49.84	\$ (14.03)	\$ (28.16)

Oil Revenue – revenue for the quarter ended September 30, 2020 decreased 39% or \$67,739 compared to the same quarter in 2019. The decrease is due to 16% lower production and lower commodity prices. Revenue is paid to Marksmen directly by oil marketing companies and is based on their monthly pricing schedules derived from the daily posted West Texas Intermediate oil (“WTI”) prices.

Royalties - are paid by the oil marketing companies at 12.5% of revenue to the landowners and overriding royalty holders of record as determined by Marksmen and our operating partners. There are no royalties paid to the state of Ohio but rather oil severance taxes of \$0.20 per barrel. Total royalties paid in the third quarter of 2019 were \$15,045 compared to \$22,888 in the third quarter of 2019.

Operating Expenses - during the third quarter of 2020 the operating expenses were lower by \$6,308 compared to the third quarter of 2019 and \$50,373 less over the first three quarters of 2020 compared to the same period in 2019.

General and Administrative Expenses

General & Administrative	Three Months Ended				Nine Months Ended			
	Sep 30 2020	Sep 30 2019	Change	% Change	Sep 30 2020	Sep 30 2019	Change	% Change
Employee compensation	\$ 1,586	\$ 30,657	\$ (29,071)	(95)	\$ 57,260	\$ 92,607	\$ (35,347)	(38)
Management consulting services	\$ 32,700	\$ 34,200	\$ (1,500)	(4)	\$ 95,500	\$ 105,600	\$ (10,100)	(10)
Professional fees	\$ 4,811	\$ 3,241	\$ 1,570	48	\$ 40,688	\$ 54,164	\$ (13,476)	(25)
Investor relations	\$ 10,413	\$ 14,490	\$ (4,077)	(28)	\$ 16,634	\$ 31,535	\$ (14,901)	(47)
Filing and listing fees	\$ 7,566	\$ 16,765	\$ (9,199)	(55)	\$ 21,057	\$ 26,064	\$ (5,007)	(19)
Ohio management and administration	\$ 4,076	\$ 6,351	\$ (2,275)	(36)	\$ 8,892	\$ 13,570	\$ (4,678)	(34)
Insurance	\$ 5,180	\$ 14,648	\$ (9,468)	(65)	\$ 18,748	\$ 38,640	\$ (19,892)	(51)
Computer software and support	\$ 5,010	\$ 4,560	\$ 450	10	\$ 14,274	\$ 17,365	\$ (3,091)	(18)
Office Space and Storage	\$ 12,525	\$ 12,525	\$ -	-	\$ 37,575	\$ 37,575	\$ -	-
General and administrative - other	\$ 3,451	\$ 5,227	\$ (1,776)	(34)	\$ 10,398	\$ 21,511	\$ (11,113)	(52)
	\$ 87,318	\$ 142,664	\$ (55,346)	(39)	\$ 321,026	\$ 438,631	\$ (117,605)	(27)

The Company has categorized its administrative expenses as per the chart above and described below. The G&A has reduced by \$55,346 or 39% in the third quarter of 2020 compared to the same period in 2019. For the three quarters ended September 30, 2020 the G&A costs have seen an overall reduction of \$117,605.

Employee Compensation - represents payments of salaries and wages to one full-time management employee and two part-time administrative support personnel. The total employee compensation of \$27,201 was offset by payments received from the federal government under the Canadian Emergency Wage Subsidy program (CEWS) for seven four-week periods beginning in mid-March 2020. Payments totaling \$25,615 were received in the third quarter covering this time period. Marksmen is not required to repay the CEWS.

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 including some administrative costs. The costs in the third quarter of 2020 were \$1,500 less than in the same quarter of 2019. Overall, the compensation for the first three quarters of 2020 is down by \$10,100 or 10%. The senior executive participates in all the private placements of the Company.

Professional Fees - consist of legal fees, reserve engineering, audit, and accounting services in Canada, as well as for legal, engineering, geology and land consulting in Ohio, USA. Legal fees associated with the settlement agreement with HHE were approximately \$4,000 CAD in the third quarter of 2020 and a total of \$22,000 CAD for the first three quarters of 2020

Investor Relations – are costs related to on-going and new relationships in the investor community to aid in raising capital for drilling and exploration opportunities in Ohio. Expenses related to travel, investor conferences, and use of investment consultants throughout North America were \$14,901 less in the first nine months of 2020, or 47% compared to the same period in 2019 due primarily to less managerial travel related to Covid-19 restrictions.

Filing and Listing Costs – are directly associated with being a public company in Canada and the USA. They include annual fees and other charges from stock exchanges in Canada and New York, provincial securities commissions, and a stock transfer agent.

Ohio Management and Administrative Expenses – are costs associated with Marksmen’s business activities in Ohio where the Company has office space and part-time contract staff.

Insurance – The Company’s efforts in 2019 to reduce overall insurance costs has resulted in a reduction in Q3 2020 of \$9,468 and \$19,892 year to date in 2020 compared to 2019.

Computer Software and Support – are costs related to a monthly fee for our accounting software package and on-going support of our computer equipment, as well as internet and telephone services.

Office and Storage – are costs associated with office rent and offsite storage of files and equipment.

General and Administrative Expenses – are normal day to day costs of running the Company.

Selected Other Expenses

Interest Expense – During the third quarter of 2020 the Company incurred interest of \$37,500 related to the secured debenture, the same amount as in the same period of 2019.

Depletion – In the third quarter of 2020 depletion totaled \$45,238 or \$22.42 per barrel compared to \$58,365 or \$24.21 per barrel of oil produced in the third quarter of 2019.

Bad Debt – the Company recorded \$nil additional bad debt expense in the third quarter of 2020 compared to \$79,240 in the first nine months of 2019. This is related to surface rights obligations that the Company has disputed but remain unresolved.

Financial Position – Highlights

	Sep 30, 2020	Dec 31, 2019	Change	% Change
Assets				
Current assets	\$ 283,603	\$ 204,590	\$ 79,013	39
Exploration and evaluation assets	\$ 1,940,471	\$ 1,901,306	\$ 39,165	2
Property and equipment	\$ 1,923,604	\$ 2,005,697	\$ (82,093)	(4)
	\$ 4,147,678	\$ 4,111,593	\$ 36,085	1
Liabilities				
Accounts payable and accruals	\$ 299,332	\$ 559,673	\$ (260,341)	(47)
Secured debentures	\$ 1,203,204	\$ 1,227,400	\$ (24,196)	(2)
Government Loan CEBA	\$ 40,000	\$ -	\$ 40,000	-
Decommissioning liabilities	\$ 445,296	\$ 445,594	\$ (298)	(0)
	\$ 1,987,832	\$ 2,232,667	\$ (244,835)	(11)
Equity				
Share capital, contributed surplus & other	\$ 27,455,903	\$ 26,728,727	\$ 727,176	3
Deficit	\$ (25,296,057)	\$ (24,849,801)	\$ (446,256)	2
	\$ 2,159,846	\$ 1,878,926	\$ 280,920	15
Liabilities and equity	\$ 4,147,678	\$ 4,111,593	\$ 36,085	1

Assets – Current assets, primarily cash, increased by \$79,013 as of September 30, 2020 compared to Dec 31, 2019.

Liabilities – Accounts payable and accruals were lower by \$260,341 as of September 30, 2020 compared to year end 2019. This was due to a reduction in accounts payable of approximately \$240,000 related to the settlement agreement with HHE.

In Q2, Marksmen received a loan of \$40,000 from the federal government under the Canadian Emergency Business Account related to the Covid19 pandemic.

Equity – as of September 30, 2020, share capital, contributed surplus, and accumulated other comprehensive income increased by \$727,176 compared to year end 2019. The deficit increased by \$446,256 from December 31, 2019 to September 30, 2020.

Capital Expenditures

Exploration and Evaluation (E&E) at Cost	Sep 30, 2020	Dec 31, 2019
Balance, beginning of period	\$ 1,901,306	\$ 4,545,574
Expenditures on Exploration and Evaluation	\$ (236,656)	\$ 426,463
Transfer to Property and Insurance	\$ -	\$ (155,466)
Impairment of E&E assets	\$ 240,240	\$ (2,777,427)
Foreign currency adjustment	\$ 35,581	\$ (137,838)
Balance, end of year	\$ 1,940,471	\$ 1,901,306

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As of September 30, 2020, the Company has \$1,940,471 in E&E assets. During the nine months ended September 30, 2020, there were no additions.

In June of 2020, a settlement agreement was reached with the operator of the Leaman well that dismissed all claims against Marksmen and this has been recorded as a reduction of \$240,240 in E&E assets.

These assets were assessed for impairment prior to their transfer to property and equipment, and it was determined that \$2,777,427 of the carrying amount related to the Leaman #1 well was impaired at year end 2019, and accordingly, was expensed to the consolidated statement of net loss and comprehensive loss at that time. The settlement agreement with the operator has resulted in adjustment to impairment of \$240,240. As of September 30, 2020, there were no indicators of additional impairment of the E&E assets.

Property and Equipment (PP&E) at Cost	Sep 30, 2020	Dec 31, 2019
Balance beginning of period	4,132,122	4,089,833
Expenditures on property and equipment	276,010	
Disposal of property and equipment	(90,438)	
Transfers from E&E	-	155,466
Change in estimate of decommissioning liabilities	(11,914)	57,818
Foreign currency adjustment	97,536	(170,995)
Balance, end of year	4,403,316	4,132,122

Accumulated Depletion and Impairment	Sep 30, 2020	Dec 31, 2019
Balance, beginning of period	(2,127,553)	(2,014,512)
Depletion	(99,931)	(188,537)
Impairment of PPE assets	(214,477)	-
Foreign Currency Translation	(38,671)	75,496
	(2,480,632)	(2,127,553)

Net Carrying Amount, end of period	\$ 1,922,684	\$ 2,004,569
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There were \$276,010 of expenditures related to the Meredith #1 well included as PPE as of September 30, 2020.

In the first quarter of 2020 there was an indicator of impairment, and accordingly, an assessment of the Company's oil and gas reserves and expected future cash flows was prepared by an independent qualified reserve evaluator as of March 31, 2020. Based on this assessment, an impairment of \$214,477 was recorded in the statement of loss and comprehensive loss. There were no indicators of additional impairment in the third quarter of 2020.

Settlement Agreement

On June 23, 2020, the Company reached a settlement agreement with Hocking Hills Energy and Well Services LLC, the operator of the Leaman #1 well drilled in Hocking County, Ohio. Marksmen was a 60% working interest partner in the well. During 2019, the Company held back payment of certain amounts totaling \$241,784 CAD owing to the Operator pending the results of a joint venture audit. The amounts held back were included as accounts payable within Marksmen's financial statements on December 31, 2019 and March 31, 2020. Pursuant to the Agreement, the Operator agreed to dismiss all claims against the Company, including its claim for the \$241,784 and appropriate accounting adjustments were made in Marksmen's financial statements.

On December 31, 2019, the Company had impaired its exploration and evaluation assets upon transfer to property and equipment by the unrecoverable amounts spent on the Leaman #1, which included the \$241,784. As such, upon dismissal of the claims against the Company, the amount has been recorded as a recovery to the previously recorded impairment and a reduction of the previously recorded additions.

As part of the Agreement, Marksmen agreed to assign to the Operator its 60% working interest in the Leaman #1 and the associated lands in the Area of Mutual Interest ("AMI"), in exchange for \$80,000 USD and a 5% overriding royalty interest related to its 60% interest in the Leaman #1 well and all future wells drilled in the AMI. The Company has received two payments of \$60,000 and \$20,000 as per terms of the agreement. The Company recorded a \$16,654 gain on the disposal, and it is recorded in the statement of net income (loss) and comprehensive income (loss).

Decommissioning Liabilities

The Company has estimated the net present value of the decommissioning liabilities to be \$445,296 (December 31, 2019 - \$445,594). The total undiscounted amount of estimated future cash flows is \$462,723 (December 31, 2019 - \$456,722). 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% (December 31, 2019 - 2%) and a discount factor, being the average risk-free rate related to the liability, of 0.23% (December 31, 2019 - 1.71%). The obligations on the US properties have been calculated using an inflation rate of 2% (December 31, 2019 - 2%) and a discount factor, being the average risk-free rate related to the liability of 0.48% (December 31, 2019 - 2%). During the year ended December 31, 2017, the Company completed the abandonment of substantially all but one well of its Canadian petroleum and natural gas assets. Reclamation and abandonment activities are expected to take place in the first half of 2021.

Secured Debenture

On January 29, 2019, the Company closed a private placement of a non-convertible secured debenture (the "Debenture") to replace the previous debenture issued on June 19, 2015. 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 entitled the holder thereof to purchase one common share of the Company at \$0.22 per share expiring on December 31, 2019. The Debenture bore an interest rate of 12% per annum and was set to mature on December 31, 2019. The interest payments were due and payable semi-annually on June 30, 2019 and on December 31, 2019, the maturity date of the Debenture. The Company recorded an interest expense of \$74,384 as of June 30, 2019, which was paid in full.

On June 28, 2019, the Company closed a private placement of a non-convertible secured debenture ("Debenture B") to replace the Debenture. The non-convertible Debenture B was issued for \$1,250,000, along with the issuance of 1,800,000 share purchase warrants of the Company. Each whole warrant entitled the holder thereof to purchase one common share of the Company for \$0.10 per share, expiring on December 31, 2020. The Debenture warrants were cancelled unexercised upon issuance of the Debenture B warrants. Debenture B bore an interest rate of 12% per annum

and was set to mature on December 31, 2020. The interest payments were due and payable semi-annually beginning December 31, 2019. All other terms and conditions of Debenture B are consistent with the Debenture. The Company recorded an interest expense of \$75,000 during the six months ended June 30, 2020, which was paid to the Debenture holder on June 30, 2020.

On July 1, 2020, the Company modified the Debenture B to extend the maturity date of Debenture B and the associated share purchase warrants to December 31, 2022 (the “Debenture Modification”). In addition, the Debenture Modification lowered the exercise price of the issued share purchase warrants from \$0.10 per share to \$0.075 per share. The interest payments continue to be due and payable semi-annually on June 30 and December 31. All other terms and conditions remain consistent. During the three and nine months ended September 30, 2020, the Company recorded interest expense of \$37,500 and \$112,500, respectively. The amendments to the Debenture B was considered a modification of the debt.

Consistent with the Debenture, the Company may, at any time, repay the principle and any accrued interest of the Debenture B without notice or penalty. If the Company is in default of the requirements included in the Debenture B agreement, the Debenture B holder may demand repayment of the Debenture B or accelerate the date for payment. Security for the Debenture B includes a general security agreement against the Company’s present and after-acquired personal property and all proceeds thereof.

The Company re-valued the warrant feature of the Debenture B upon the extension of maturity pursuant to the Debenture Modification 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 \$1,198,748 and the equity component was \$51,252. Pursuant to the Debenture Modification, the previous accretion of Debenture B was reversed and recorded as an offset against the accretion calculated under the Debenture Modification.

Share Capital

For a more detailed explanation of share capital please refer to Note 11, Share Capital, in Marksmen’s consolidated financial statements for the three and nine-month period ended September 30, 2020. The chart below is a summary of share capital transactions. It also includes subsequent transactions as of November 25, 2020.

	Common Shares	Stock Options	Warrants	Broker Warrants
Balance December 31, 2019	113,237,590	11,074,000	14,365,706	60,000
Issued - private placements	10,765,280	-	10,765,280	-
Stock Options Expired	-	(550,000)	-	-
Warrants Expired	-	-	(1,729,205)	-
Broker warrants issued	-	-	-	32,000
Broker warrants expired	-	-	-	(56,000)
Balance at September 30, 2020	124,002,870	10,524,000	23,401,781	36,000
Private Placement	-	-	-	-
warrants issued	-	-	-	-
Stock Options Expired	-	-	-	-
Warrants expired	-	-	-	-
Balance at November 25, 2020	124,002,870	10,524,000	23,401,781	36,000

Share-based Payments

During the nine months ended September 30, 2020, the Company granted nil stock options (December 31, 2019 - 4,080,000), and nil were exercised, 550,000 expired unexercised, and nil were cancelled due to forfeiture (December 31, 2019 - 35,000, 2,440,000, and 200,000 respectively). 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.

Share-based payments expense recognized during the three and nine months ended September 30 30, 2020 was \$19,930 and \$85,110, respectively (September 30, 2019 - \$49,091 and \$177,405, respectively), of which \$19,930 and \$85,110, respectively, has been recorded in the statement of net loss and comprehensive loss (September 30, 2019 \$46,541 and \$168,777, respectively) and \$nil has been capitalized as E&E (September 30, 2019 - \$2,550 and \$8,628, respectively), all of which has been recorded as an offsetting credit to contributed surplus.

Government loan

On April 22, 2020, the Company received \$40,000 from the Canada Emergency Business Account (“CEBA”). CEBA was made available by the federal government as loan to companies due to the Covid-19 pandemic. If the amount received is repaid on or before December 31, 2022 no interest is payable and 25% (\$10,000) of the loan will be forgiven. Any balance owing after December 31, 2022 will be converted to a three-year term loan with a fixed interest of 5% per annum. There is no required principle repayment until January 31, 2023, and all outstanding principle and interest required is to be paid in full by December 31, 2025. The Canadian government has not required any security for this loan and therefore does not contravene the general security agreement in place with the holder of the Debenture.

Related Party Transactions

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

During the three months ended September 30, 2020:

A total of \$32,700 (September 30, 2019 - \$34,200) in consulting fees and \$7,500 (September 30, 2019 - \$7,500) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to Directors with executive responsibilities of the Company and/or Directors of Marksmen Energy USA, Inc. of which \$nil (September 30, 2019 - \$nil) were capitalized as E&E costs. An executive Director of Marksmen applied most or all of these fees towards acquiring share units in the Company’s private placements with purchases of 1,150,000 units for \$57,500 (September 30,2019 – 500,000 units for \$25,000).

Aggregate legal fees of \$14,869 (September 30, 2019 - \$9,925) were charged by a law firm in which a director of the Company is a partner, of which \$1,575 (September 30, 2019 - \$nil) were expensed as general and administrative expenses and \$13,294 (September 30, 2019 - \$9,925) were charged to share capital as share issue costs.

During the nine months ended September 30, 2020:

A total of \$98,479 (September 30, 2019 - \$117,820) in consulting fees and \$22,500 (September 30, 2019 - \$22,500) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to Directors with executive responsibility of the Company and/or Directors of Marksmen Energy USA, Inc. of which \$nil (September 30, 2019 - \$4,561) were capitalized as E&E costs. The executive Director of Marksmen applied most of these fees towards acquiring share units in the Company's private placements with purchases of 1,420,000 units for \$71,000 (September 30, 2019 - 1,500,000 units for \$99,000).

Aggregate legal fees of \$29,134 (September 30, 2019 - \$37,921) were charged by a law firm in which a director of the Company is a partner, of which \$9,164 (September 30, 2019 - \$20,099) were expensed as general and administrative expenses and \$19,970 (September 30, 2019 - \$17,822) were charged to share capital as share issue costs.

As of September 30, 2020, the Company has accounts payable and accrued liabilities totaling \$48,158 (September 31, 2019 - \$39,755) owing to related parties relating to the above transactions.

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

Commitments

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

On June 30, 2020, included in deposits and prepaid expenses is an amount of \$41,581 on deposit with the AER associated with Marksmen's operated wells in Alberta (December 31, 2019 - \$41,243). The AER has indicated that a higher deposit may be required. However, since all wells are abandoned or shut-in and in light of certain changes to government programs that will potentially assist Marksmen in completing the abandonments and reclamation of its wells in Alberta, Marksmen will continue to negotiate with the AER on an as required basis.

The Surface Rights Board ("SRB") - 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, 2019, Marksmen has been served with a Judgement from the Alberta Government - Service Alberta - Crown Debt Collections with a balance at September 30, 2020 of \$97,848 related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010.

The Company 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. Upon the sale of the properties, the Company 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. The Company'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.

On April 4, 2019 SRB ruled and agrees that the third-party company is also an Operator, but they did not agree that the Company should be removed as an Operator. Therefore, the Company has accrued for these surface rights obligations. Although the third-party company has agreed they are responsible for the surface lease payments, their ability to reimburse the Company for the costs is unlikely, and accordingly, the accrued payment has been recorded as a bad debt item in Marksmen's statement of loss and comprehensive loss. Marksmen remains dissatisfied with SRB's position and will continue discussions regarding this matter with the AER, the Alberta Department of Energy, and the SRB.

Financial Risk Management

Going concern – At September 30, 2020, the Company had not yet achieved profitable operations, had accumulated a deficit of \$25,296,057 (December 31, 2019 - \$24,849,801) a negative working capital of \$15,729 (December 31, 2019 - \$1,582,483), 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, 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 2020 budget and on management's estimate of expenditures expected to be incurred beyond 2020.

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 of September 30, 2020, 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 2 private placements during the nine months ended September 30, 2020. To achieve its intended development, management is committed to raising additional capital and realizing additional cash flows from drilling activities. Additional equity financing is subject to volatile financial markets and economic conditions.

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

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

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 of September 30, 2020, the Company had cash of \$182,870 (December 31, 2019 - \$113,203), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at September 30, 2020, the Company's accounts receivable consisted of \$33,386 receivable from oil and natural gas marketing companies (December 31, 2019 - \$15,081), \$573 receivable from joint venture working interest partners (December 31, 2019 - \$2,752) and \$3,884 related to goods and service tax owing from the Government of

Canada (December 31, 2019 - \$11,540). As of September 30, 2020, 57% (December 31, 2019 - 39%) 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 on September 30, 2020 and December 31, 2019, excluding any impaired accounts, are as follows:

	As at September 30, 2020	As at December 31, 2019
Days outstanding		
0-30 days	33,959	17,833
31-60 days	3,884	11,540
Trade and other receivables, net of allowance	37,843	29,373

The Company assessed the credit loss risk as \$nil based on historical data and there was no allowance recorded against the accounts receivable.

Liquidity risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At September 30, 2020, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of \$299,332 (December 31, 2019 - \$559,673), which are all due over the next twelve months, and the secured debentures balance of \$1,203,204 maturing on December 31, 2022.

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.

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.

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 six months ended September 30, 2020 or the year ended December 31, 2019. A 20% change in price per bbl. in commodity process would impact petroleum and natural gas sales by approximately \$40,000 (December 31, 2019 - \$94,000).

Foreign currency 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 US currency. The exchange rate between the Canadian and the United States dollar exposes 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 of September 30, 2020, and December 31, 2019, the Company had no forward exchange rate contracts in place.

The Company had the following financial instruments denominated in USD:

	September 30, 2020	December 31, 2019
Cash	159,664	106,514
Trade and other receivables	33,959	17,833
Accounts payable and accrued liabilities	10,539	239,509

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 debenture bears a fixed interest rate. The Company has no interest rate swaps or financial contracts in place as at or during the periods ended September 30, 2020 and the year ended December 31, 2019.

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 nine months ended September 30, 2020		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	232,395	232,395
Depletion and depreciation	207	99,931	100,138
Net loss (income) and comprehensive loss (income)	509,237	(62,982)	446,255
Exploration and evaluation assets	-	1,940,471	1,940,471
Property, plant and equipment	918	1,922,685	1,923,604
Total liabilities	1,769,637	218,195	1,987,832
	For the nine months ended September 30, 2019		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	483,093	483,093
Depletion and depreciation	300	158,945	159,245
Net loss (income) and comprehensive loss (income)	802,449	(153,894)	648,555
Exploration and evaluation assets	-	4,857,150	4,857,150
Property, plant and equipment	1,227	1,873,904	1,875,131
Total liabilities	1,704,905	409,957	2,114,862

Outlook

In 2019 Marksmen executed a Joint Operating Agreement (“JOA”) with PEP Drilling LLC., of Ohio, to recomplete up to 40 wells in the Clinton Sandstone formation, that was previously by-passed and not produced. The wells are in Portage County, Ohio and come with all the necessary infrastructure including surface and downhole equipment. Each well recompletion will take approximately two to three weeks from start to the beginning of production. The first well was completed in the June of 2020 and put on production in July.

The second recomplete well is in the final planning stages waiting on the operator to complete some required work on title and outstanding items required by the Ohio Department of Natural Resources (ODNR). Due to personnel constraints caused by Covid-19, the service rig and other equipment is not available until late December 2020 or early January of 2021.

The Company anticipates that the addition of production from the recomplete wells with PEP coupled with some optimization work at the Company’s wells at Pickaway County, Ohio will show steady growth in the company’s production profile and revenue.

To meet future capital projects, the Company will consider additional equity by way of private placements, other financial instruments and the use of funds generated from operations. Capital projects will be undertaken as funding is available.

Other

Additional information relating to the Company is available on SEDAR at www.sedar.com or email ajnesbitt@marksmenenergy.com. Marksmen Energy Inc. is listed on the TSX Venture Exchange under the symbol "MAH" and on the OTCQB Venture Marketplace under the symbol MKSEF.