

Marksmen Energy Inc.

Consolidated Financial Statements

For the three and nine months ended September 30, 2021 and 2020

(Expressed in Canadian Dollars)

(unaudited)

NOTICE OF NO AUDITOR REVIEW In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three and nine months ended September 30, 2021 and 2020.

Marksmen Energy Inc.

Consolidated Statements of Financial Position

As at:

(Canadian \$)	September 30, 2021	December 31, 2020
ASSETS		
Current Assets		
Cash	501,101	135,627
Trade and other receivables (note 14(b))	111,662	65,902
Deposits and prepaid expenses (note 15(a))	62,209	62,029
Total Current Assets	674,972	263,558
Exploration and evaluation assets (note 6)	1,389,324	1,388,576
Property and equipment (note 7)	1,531,954	1,289,386
TOTAL ASSETS	3,596,250	2,941,520
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 14(c))	456,657	331,460
Short-term loan (note 4)	74,000	-
Decommissioning liabilities (note 9)	151,261	234,636
Total Current Liabilities	681,918	566,096
Government loan (note 11)	34,376	30,969
Secured debentures (note 10)	1,222,299	1,207,660
Decommissioning liabilities (note 9)	222,187	195,040
	2,160,780	1,999,765
SHAREHOLDERS' EQUITY		
Share capital (note 12(b))	19,980,441	19,648,386
Warrants (note 12(e))	950,185	620,005
Contributed surplus (note 12(g))	6,901,344	6,557,729
Accumulated other comprehensive income	599,855	598,925
Deficit	(26,996,355)	(26,483,290)
	1,435,470	941,755
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3,596,250	2,941,520

Going concern (note 1)

Commitments (note 15)

Subsequent events (note 19)

Approved by the Board of Directors:

Signed "Donald D. Jones"

Donald Jones

Signed "Archie J. Nesbitt"

Archie Nesbitt

Marksmen Energy Inc.

Consolidated Statements of Net Loss and Comprehensive Loss For the three and nine months ended:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
REVENUE				
Petroleum and natural gas sales (note 18)	106,318	107,613	376,204	232,395
Royalties	(13,925)	(15,045)	(50,530)	(31,696)
	92,393	92,568	325,674	200,699
EXPENSES				
Production and operating expenses	29,782	18,052	186,811	42,982
Depletion and depreciation (note 7)	31,018	45,238	(23,718)	100,138
General and administrative	113,515	87,318	344,273	321,026
Share-based payments (note 12(d))	23,280	19,930	107,815	85,110
Bad debt expense (note 15(b))	31,002	-	31,002	-
Loss from operations	(136,204)	(77,970)	(320,509)	(348,557)
FINANCE EXPENSE				
Interest expense (note 10)	37,500	37,500	112,500	112,500
Foreign exchange loss	51	6,044	-	27,275
Accretion of secured debentures (note 10)	5,102	(16,666)	14,639	5,748
Accretion of decommissioning liabilities (note 9)	383	1,924	1,143	5,821
Other expense (note 11)	1,177	-	3,407	-
	(44,213)	(28,802)	(131,689)	(139,848)
OTHER EXPENSES				
Gain (loss) on abandonment estimates (note 9)	22	-	(60,867)	(133)
Gain on disposal of property and equipment (note 5)	-	(134)	-	16,520
Recovery of exploration and evaluation impairment (note 5)	-	(1,952)	-	240,240
Property and equipment impairment (note 8)	-	1,743	-	(214,477)
	22	(343)	(60,867)	42,150
NET LOSS	(180,395)	(107,115)	(513,065)	(446,255)
Other comprehensive income that may subsequently be transferred to net loss				
Currency translation adjustment	62,033	66,879	930	106,923
NET LOSS AND COMPREHENSIVE LOSS	(118,362)	(40,236)	(512,135)	(339,332)
Basic and diluted loss per share	(0.00)	(0.00)	(0.00)	(0.00)
Weighted average number of common shares outstanding during the period	140,608,218	122,140,588	137,856,830	117,671,402

Marksmen Energy Inc.

Consolidated Statements of Changes in Equity

(Canadian \$)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
BALANCE AS AT DECEMBER 31, 2020	19,648,386	620,005	6,557,729	(26,483,290)	598,925	941,755
Loss for the period	-	-	-	(513,065)	-	(513,065)
Translation differences on foreign subsidiaries	-	-	-	-	930	930
Private placement (note 12(b))	209,822	648,378	-	-	-	858,200
Cash share issue costs (note 12(b))	(22,368)	(75,533)	-	-	-	(97,901)
Broker warrants exercised (note 12(f))	3,100	-	35,686	-	-	38,786
Reallocation of broker warrant fair value on exercise	1,270	-	(1,270)	-	-	-
Stock options exercised (note 12(d))	23,950	-	-	-	-	23,950
Reallocation of stock option fair value on exercise	23,057	-	(23,057)	-	-	-
Warrants exercised (note 12(e))	75,000	-	-	-	-	75,000
Reallocation of warrant fair value on exercise	18,224	(18,224)	-	-	-	-
Warrants expired (note 12(e))	-	(231,025)	231,025	-	-	-
Expiry of warrant share issue costs (note 12(e))	-	6,584	(6,584)	-	-	-
Share-based payments (note 12(d))	-	-	107,815	-	-	107,815
BALANCE AS AT SEPTEMBER 30, 2021	19,980,441	950,185	6,901,344	(26,996,355)	599,855	1,435,470
BALANCE AS AT DECEMBER 31, 2019	19,374,311	711,865	6,021,991	(24,849,801)	620,560	1,878,926
Loss for the period	-	-	-	(446,255)	-	(446,255)
Translation differences on foreign subsidiaries	-	-	-	-	106,923	106,923
Private placement (note 12(b))	240,158	298,107	-	-	-	538,265
Broker warrants (note 12(f))	(262)	(100)	362	-	-	-
Cash share issue costs (note 12(b))	(9,842)	(11,728)	-	-	-	(21,570)
Reallocation of warrant fair value on expiry (note 12(e))	-	(280,667)	280,667	-	-	-
Modified value of warrants pursuant to the Debenture Modification (note 10)	-	18,448	-	-	-	18,448
Share-based payments (note 12(d))	-	-	85,110	-	-	85,110
BALANCE AS AT SEPTEMBER 30, 2020	19,604,365	735,925	6,388,130	(25,296,055)	727,483	2,159,846

The notes are an integral part of these consolidated financial statements

Marksman Energy Inc.

Consolidated Statements of Cash Flows

(Canadian \$)	Nine months ended	
	September 30, 2021	September 30, 2020
CASH FLOW (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	(513,065)	(446,255)
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation (note 7)	(23,718)	100,138
Gain on disposal of property and equipment (note 5)	-	(16,520)
Accretion of decommissioning liabilities (note 9)	1,143	5,821
Accretion of secured debentures (note 10)	14,639	(5,748)
Other expense (note 11)	3,407	-
Change in estimates (note 9)	60,881	133
Property and equipment impairment (note 8)	-	214,477
Recovery of exploration and evaluation impairment	-	(240,240)
Share-based payments (note 12(d))	107,815	85,110
Change in trade and other receivables	(45,760)	(8,470)
Change in deposits and prepaid expenses	1,465	769
Change in accounts payable and accrued liabilities	(290,754)	(106,447)
CASH FLOW USED IN OPERATING ACTIVITIES	(683,947)	(417,232)
INVESTING ACTIVITIES		
Expenditures on exploration and evaluation (note 6)	-	236,656
Expenditure on property and equipment (note 7)	(338,347)	(276,011)
Disposal of property and equipment (note 5)	-	106,958
Change in non-cash working capital	415,944	(153,891)
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES	77,597	(86,287)
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs (note 12(b))	795,984	516,695
Proceeds from short-term loan (note 4)	74,000	-
Receipt of government grant (note 11)	-	40,000
Proceeds from exercise of warrants (note 12(b))	75,000	-
Proceeds from exercise of stock options (note 12(b))	23,950	-
Proceeds from exercise of broker warrants (note 12(f))	3,100	-
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	972,034	556,695
Foreign exchange effect on cash	(210)	16,491
Increase in cash	365,474	69,667
Cash, beginning of period	135,627	113,203
CASH, END OF PERIOD	501,101	182,870

The notes are an integral part of these consolidated financial statements

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2021

1. Reporting entity and going concern

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

At September 30, 2021, the Company had not yet achieved profitable operations, had accumulated a deficit of \$26,996,355 (December 31, 2020 - \$26,483,290) a negative working capital of \$6,946 (December 31, 2020 – negative \$302,539), 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 2021 budget and on management’s estimate of expenditures expected to be incurred beyond 2021.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2021, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company’s ability to continue as a going concern.

The Company successfully completed two private placements during the nine months ended September 30, 2021 (note 12(b)), and one subsequent to September 30, 2021 (note 19). 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.

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

During 2020, the global outbreak of COVID-19 (coronavirus) had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

2. Basis of presentation

a) Statement of compliance:

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as issued by the International Accounting Standards Board as disclosed in the Company’s audited annual consolidated financial statements for the year ended December 31, 2020. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2020 and exclude certain disclosures required to be included in the annual financial statements. The Board of Directors approved the consolidated financial statements on November 24, 2021.

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2021

b) Basis of consolidation:

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

c) Basis of measurement:

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

d) Functional and presentation currency:

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

e) Use of estimates and judgments:

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

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

3. Equity investment

During 2012, the Company's share of the US Private Company ("US PrivateCo.") losses were in excess of Company's interest and accordingly at September 30, 2021 the investment was valued at \$nil (December 31, 2020 - \$nil).

4. Short-term loan

On September 28, 2021, the Company received a Short-term Loan in the amount of \$200,000. The Short-term Loan has an interest rate of 5% per annum. The Lender participated in the September 29, 2021 private placement (note 12(v)) and received 2,100,000 units, valued at \$126,000 (\$0.06 per unit), reducing the outstanding Short-term Loan to \$74,000. Subsequent to September 30, 2021, the Lender participated in the November 5, 2021 private placement (note 19) receiving 1,233,330 units, valued at \$74,000 (\$0.06 per unit), reducing the Short-term Loan to \$nil.

5. Settlement agreement

On June 23, 2020, the Company reached a settlement agreement (the "Agreement") with the operator of the Leaman #1 well drilled in Hocking County, Ohio. The Company was a 60% working interest partner in the well. During 2019, the Company held back payment of certain amounts owing to the operator totaling \$241,784 due to significant cost over-runs during the drilling and completion of the well by the Operator. A joint venture audit was initiated to examine the cost over-runs, and it was concluded that the over-runs were the result of operator error. Pursuant to the Agreement, the operator agreed to dismiss all claims against the Company, including its claim for \$241,784.

As part of the Agreement, the Company agreed to assign to the operator its 60% working interest, including the related decommissioning liability, 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. During the year ended December 31, 2020, the Company received the full \$80,000 USD and recorded a gain on disposition of \$254,371.

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2021

6. Exploration and evaluation

	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	1,388,576	1,901,306
Impairment of exploration and evaluation assets	-	(503,830)
Foreign exchange translation	748	(8,900)
BALANCE, END OF PERIOD	1,389,324	1,388,576

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at September 30, 2021, the Company has \$1,389,324 in E&E assets (December 31, 2020 - \$1,388,576). During the nine months ended September 30, 2021, and the year ended December 31, 2020, there were no additions to the E&E assets. The E&E assets consist of undeveloped land, seismic activity and the costs associated with wells that have not reached technical feasibility and commercial viability within Ohio, USA. During the year ended December 31, 2020, the Company identified certain leases and related capitalized amounts totaling \$503,830 held within the E&E balance that had expired, removing the Company's rights to explore these leases. Accordingly, these amounts were expensed as an exploration and evaluation impairment. As at September 30, 2021, there were no indicators of impairment of the E&E balance.

7. Property and equipment

	As at September 30, 2021	As at December 31, 2020
Petroleum and natural gas assets	4,580,264	4,222,691
Corporate assets	22,167	22,167
Property and equipment at cost	4,602,433	4,244,859
Accumulated depletion and depreciation	(3,070,479)	(2,955,473)
PROPERTY AND EQUIPMENT NET CARRYING AMOUNT	1,531,954	1,289,386

COST	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	4,222,691	4,132,122
Expenditures on property and equipment	338,347	263,451
Disposal of property and equipment (note 5)	-	(86,323)
Change in estimate of decommissioning liabilities (note 9)	16,609	(15,424)
Foreign currency translation	2,617	(71,136)
BALANCE, END OF PERIOD	4,580,264	4,222,691

ACCUMULATED DEPLETION	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	(2,935,536)	(2,127,553)
Depletion	(110,666)	(175,328)
Impairment expense (note 8)	-	(709,321)
Foreign currency translation	(3,723)	76,665
BALANCE, END OF PERIOD	(3,049,926)	(2,935,536)
NET CARRYING AMOUNT, END OF PERIOD	1,530,339	1,287,154

At September 30, 2021, future development costs of \$1,042,723 (December 31, 2020 - \$1,041,987) are included in costs subject to depletion. The Company's Canadian petroleum and natural gas assets continued to be shut-in during the nine months ended September 30, 2021 and the year ended December 31, 2020, and continue to have a \$nil value.

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On June 23, 2020, the Company disposed of their working interest in one of their wells through a settlement agreement whereby the Company received forgiveness of outstanding payables and cash and the difference between the compensation received and the carrying value of the well resulted in a gain on settlement of \$254,371.

Other Corporate Assets

	As at September 30, 2021	As at December 31, 2020
COST		
Balance, beginning of period	22,167	20,385
Additions	-	1,782
BALANCE, END OF PERIOD	22,167	22,167
ACCUMULATED DEPRECIATION		
Balance, beginning of period	(19,937)	(19,259)
Depreciation	(616)	(678)
BALANCE, END OF PERIOD	(20,553)	(19,937)
NET CARRYING AMOUNT, END OF PERIOD	1,614	2,230

8. Impairment

As at September 30, 2021, there were no indicators of impairment of the property and equipment balance. During the year ended December 31, 2020 the continued depressed commodity prices experienced was an indicator of impairment, and accordingly, impairment and recovery testing was required. The Company prepared estimates of future cash flows to determine the recoverable amounts of the respective assets. Recoverable amounts for the Company's oil and gas assets were estimated based on FVLCD, calculated using the present value of the CGUs' expected future cash flows. The primary source of cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator.

The projected cash flows reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates. Cash flow forecasts are also based on past experience, historical trends and an evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. The discount rate applied in the impairment calculation as at December 31, 2020 was 15% of proven reserves and 20% of probable reserves.

The FVLCD estimates are categorized as level 2 according to the IFRS 13 fair value hierarchy. Based on the assessment at December 31, 2020, the recoverable amount of the Company's Ohio, USA CGU did not exceed its carrying value and accordingly, an impairment of the unrecoverable amount of \$709,321 was recognized.

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9. Decommissioning liabilities

	As at September 30, 2021	As at December 31, 2020
Balance, beginning of period	429,675	445,594
Liabilities incurred	20,459	21,814
Liabilities settled through SRP	(135,000)	-
Liabilities disposed	-	(40,787)
Change in estimate	57,034	(513)
Accretion expense	1,143	7,727
Foreign currency translation	138	(4,160)
BALANCE, END OF PERIOD	373,448	429,675
Current	151,261	234,636
Non-current	222,187	195,039

The Company has estimated the net present value of the decommissioning liabilities to be \$373,448 (December 31, 2020 - \$429,675). The present value of the decommissioning liability considered to be current is \$151,261 (December 31, 2020 - \$234,636). The total undiscounted amount of estimated future cash flows is \$383,172 (December 31, 2020 - \$452,345). These payments are expected to be made over the next 10 years. The obligations on the properties have been calculated using an inflation rate of 2% (December 31, 2020 – 2%) and a discount factor, being the average risk-free rate related to the liability, of between 0.52% and 1.92% (December 31, 2020 – between 0.20% and 0.55%). The Company recorded an abandonment loss of \$60,867 as the estimated capitalized abandonment costs were previously impaired. This loss of \$60,867 is included in the “change in estimates” line item above.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program (“SRP”) whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to \$242,000 in SRP funding. To date the Company has received \$135,000 in SRP resulting in a reduction of the decommissioning liability, with an off-setting credit to depletion, depreciation and amortization in the consolidated statement of loss and comprehensive loss.

10. Secured debentures

	Secured debentures
Balance, December 31, 2019	1,227,400
Accretion of Debenture B	19,830
Issuance of Debenture	(39,570)
Balance, December 31, 2020	1,207,660
Accretion of Debenture B	14,639
Balance, September 30, 2021	1,222,299

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.

On July 1, 2020, the Company modified the Debenture B to extend the maturity date 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. All other terms and conditions remain consistent. As the terms and future cashflows under the debenture modification were not

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substantially different from the terms of the initial Debenture B, the amendment was considered a debt modification. As a result, a gain on debt modification of \$39,570 was recorded for the difference between the carrying value of the Debenture Modification at the date of the amendment and the fair value of the cashflows under the amended terms. Subsequent to July 1, 2020, the amended Debenture B is carried at amortized cost using the effective interest rate method. During the three and nine months ended September 30, 2021, the Company recorded interest expense of \$37,500 and \$112,000, respectively, (September 30, 2020 - \$37,500 and \$112,000, respectively).

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.

11. Government loan

During the year ended December 31, 2020, the Company received a \$60,000 CEBA loan with the bank under the Canada Emergency Business Account ("CEBA") program funded by the Government of Canada. The CEBA loan is non-interest bearing, can be repaid at any time without penalty and is valid until December 31, 2022. If 75% of the CEBA loan is repaid on or before December 31, 2022, the repayment of the remaining 25% of such CEBA loan shall be forgiven. If on December 31, 2022, the Company exercises the option for a 3-year term extension, 5% interest during the term of the extension period will apply on any balance remaining.

The Company recognized the forgivable portion of \$20,000 of the CEBA loan received in other income at December 31, 2020. The Company used an effective interest rate of 14.47% to calculate the interest benefit of \$11,889 upon initial recognition of the CEBA loan. This benefit between the fair value of the CEBA loan and the total amount of the CEBA loan received was recorded in other income at December 31, 2020. During the nine months ended September 30, 2021, accretion expense of \$3,407 has been recorded as other expense in the statement of loss and comprehensive loss (year ended December 31, 2020 - \$2,858).

12. Share capital

a) Authorized

Unlimited number of common shares with voting rights, at par value

Unlimited number of preferred shares, issuable in series, at par value

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For the three and nine months ended September 30, 2021

b) Issued

	Number	Amount
Balance, December 31, 2019	113,237,590	19,374,311
Shares issued pursuant to private placement (i)	3,880,280	140,488
Shares issued pursuant to private placement (ii)	6,885,000	99,670
Shares issued pursuant to private placement (iii)	2,425,000	44,801
Share issue costs ((i), (ii) and (iii))	-	(10,884)
Balance, December 31, 2020	126,427,870	19,648,386
Shares issued pursuant to private placement (iv)	12,575,000	83,999
Shares issued pursuant to private placement (v)	5,920,000	125,823
Shares issued pursuant to stock option exercise	479,000	23,950
Fair value reclass pursuant to stock option exercise	-	23,057
Shares issued pursuant to warrant exercise	1,000,000	75,000
Fair value reclass pursuant to warrant exercise	-	18,224
Shares issued pursuant to broker warrant exercise	62,000	3,100
Fair value reclass pursuant to broker warrant exercise	-	1,270
Share issue costs ((iv) and (v))	-	(22,368)
Balance, September 30, 2021	146,463,870	19,980,441

- i) On March 20, 2020, the Company closed a private placement issuing a total of 3,880,280 units ("Unit A") for aggregate proceeds of \$194,014. Each Unit A consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.10 per common share for a period of 24 months from issuance, which was valued at \$53,526 (note 12e)(i)). In connection with the private placement, the Company incurred cash share issue costs of \$8,276, and issued 32,000 broker warrants valued at \$362. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.05 per common share for a period of 12 months from issuance (note 12(f)). Share issue costs of \$6,255 were allocated to share capital and \$2,383 were allocated to warrants.
- ii) On July 17, 2020, July 27, 2020 and September 4, 2020, the Company closed a private placement issuing a total of 6,885,000 units ("Unit B") for aggregate proceeds of \$344,250. Each Unit B consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.075 per common share for a period of 24 months from issuance, which was valued at \$244,581 (note 12(e)(ii)). In connection with the private placement, the Company incurred cash share issue costs of \$13,294. Share issue costs of \$3,849 were allocated to share capital and \$9,445 were allocated to warrants.
- iii) On December 31, 2020, the Company closed a private placement issuing a total of 2,425,000 units ("Unit C") for aggregate proceeds of \$97,000. Each Unit C consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.07 per common share for a period of 24 months from issuance, which was valued at \$52,199 (note 12(e)(iii)). In connection with the private placement, the Company incurred cash share issue costs of \$780, which were allocated to share capital.
- iv) On February 9, 2021, the Company closed a private placement issuing a total of 12,575,000 units ("Unit D") for aggregate proceeds of \$503,000. Each Unit D consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.07 per common share for a period of 24 months from issuance, which was valued at

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\$419,001 (note 12(e)(iv)). In connection with the private placement, the Company incurred cash share issue costs of \$43,976, and issued 862,000 broker warrants valued at \$26,119. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.05 per common share for a period of 12 months from issuance (note 12(f)). Share issue costs of \$12,518 were allocated to share capital and \$57,576 were allocated to warrants.

- v) On September 29, 2021, the Company closed a private placement issuing a total of 5,920,000 units (“Unit E”) for aggregate proceeds of \$355,200. Each Unit E consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.09 per common share for a period of 24 months from issuance, which was valued at \$229,377 (note 12(e)(v)). In connection with the private placement, the Company incurred cash share issue costs of \$18,240, and issued 304,000 broker warrants valued at \$9,567. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.06 per common share for a period of 12 months from issuance (note 12(f)). Share issue costs of \$9,850 were allocated to share capital and \$17,957 were allocated to warrants.

c) Stock options

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

A summary of the status of the Company’s stock option plan and changes during the nine months ended September 30, 2021 is as follows:

	As at September 30, 2021		As at December 31, 2020	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Balance, beginning of the period	9,909,000	0.11	11,074,000	0.11
Granted	3,985,000	0.05	-	-
Exercised	(479,000)	(0.05)	-	-
Expired	(790,000)	(0.05)	(1,165,000)	(0.11)
BALANCE, END OF PERIOD	12,625,000	0.09	9,909,000	0.11

Exercise Price (\$)	Options Outstanding	Weighted Average Remaining Term (Years)	Weighted Average Exercise Price (\$)	Options Exercisable	Weighted Average Exercise Price (\$)
0.00 - 0.09	7,035,000	3.88	0.05	4,511,667	0.06
0.10 - 0.19	2,940,000	2.00	0.12	3,000,000	0.12
0.20 - 0.29	2,650,000	1.40	0.21	2,650,000	0.21

As at September 30, 2021 the Company had 10,161,667 exercisable options and 2,463,333 options granted but not yet vested (December 31, 2020 - 8,490,000 and 1,419,000, respectively). The weighted average exercise price of the exercisable options is \$0.10 (2020 - \$0.12).

d) Share-based payments

During the nine months ended September 30, 2021, the Company granted 3,985,000 stock options (nine months ended September 30, 2020 – nil), 479,000 stock options were exercised, 790,000 stock options expired, and there were no stock options cancelled due to forfeiture. The options granted are exercisable at \$0.05 per option and

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expire 5 years after their respective grant date. One third of the stock options vest immediately and the remaining stock options granted vest one third on each of the first and second anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates.

The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model.

	As at September 30, 2021
Risk-free interest rate	0.17%
Expected life	2.5 years
Expected volatility	151.79%
Fair value per option	\$0.04
Forfeiture rate	0.00%
Dividend yield	-

Share-based payments expense recognized during the three and nine months ended September 30, 2021 was \$23,280 and \$107,815, respectively (three and nine months ended September 30, 2020 - \$19,930 and \$85,110, respectively), all of which has been recorded in the statement of loss and comprehensive loss and has been recorded as an offsetting credit to contributed surplus.

e) Warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2019	14,365,706	0.17	711,865	1.25
Warrants issued pursuant to private placement (note 12(b)(i))	3,880,280	0.05	53,526	1.47
Warrants issued pursuant to private placement (note 12(b)(ii))	6,885,000	0.08	244,581	1.82
Warrants issued pursuant to private placement (note 12(b)(iii))	2,425,000	0.07	52,199	-
Share issue costs (note 12(b)(i) and (ii))	-	-	(11,830)	-
Expiry of warrants	(3,291,706)	(0.13)	(440,033)	-
Expiry of warrant share issue costs	-	-	9,697	-
Balance, December 31, 2020	24,264,280	0.10	620,005	1.23
Warrants issued pursuant to private placement (note 12(b)(iv))	12,575,000	0.07	419,001	1.61
Warrants issued pursuant to private placement (note 12(b)(v))	5,920,000	0.09	229,377	2.00
Share issue costs (note 12(b)(iv) and (v))	-	-	(75,533)	-
Exercise of warrants	(1,000,000)	(0.08)	(18,224)	-
Expiry of warrants	(4,780,000)	(0.13)	(231,025)	-
Expiry of warrant share issue costs	-	-	6,584	-
Balance, September 30, 2021	36,979,280	0.08	950,185	1.11

- (i) As part of the units issued in the private placement that closed on March 20, 2020 (note 12(b)(i)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.10 for a period of 24 months from the date of closing. A value of \$53,526 (\$0.01 per warrant) has been attributed to the warrants issued in connection with the private placement, share issue costs totaling \$2,383 were allocated to warrants (note 12(b)(i)).
- (ii) As part of the units issued in the private placement that closed on July 17, 2020, July 27, 2020 and September 4, 2020 (note 12(b)(ii)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.075 for a period of 24 months from the date of closing. A value of \$244,581 (\$0.03 per warrant) has been attributed to the warrants issued in connection with the private placement, share issue costs totaling \$9,447 were allocated to warrants (note 12(b)(ii)).
- (iii) As part of the units issued in the private placement that closed on December 31, 2020 (note 12(b)(iii)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.07 for a period of 24 months from the date of closing. A value of \$52,199 (\$0.02 per warrant) has been attributed to the warrants issued.

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(iv) As part of the units issued in the private placement that closed on February 9, 2021 (note 12(b)(iv)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.07 for a period of 24 months from the date of closing. A value of \$419,001 (\$0.03 per warrant) has been attributed to the warrants issued.

(v) As part of the units issued in the private placement that closed on September 29, 2021 (note 12(b)(v)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.09 for a period of 24 months from the date of closing. A value of \$229,377 (\$0.04 per warrant) has been attributed to the warrants issued.

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

	As at September 30, 2021	As at December 31, 2020
Risk-free interest rate	0.28%	0.34%
Expected life	2.00 years	2.00 years
Expected volatility	164.92%	153.86%
Fair value per warrant	\$0.04	\$0.03

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2019	60,000	0.10	3,372	0.23
Broker warrants issued pursuant to private placement (note 12(b)(i))	32,000	0.05	362	0.97
Broker warrants expired	(60,000)	(0.10)	(3,372)	-
Balance, December 31, 2020	32,000	0.05	362	0.22
Broker warrants issued pursuant to private placement (note 12(b)(iv))	862,000	0.05	26,119	0.36
Broker warrants issued pursuant to private placement (note 12(b)(v))	304,000	0.06	9,567	1.00
Broker warrants exercised	(62,000)	(0.05)	(1,270)	-
Balance, September 30, 2021	1,136,000	0.05	34,778	0.53

- (i) As part of the private placement that closed on March 20, 2020, the Company issued 32,000 (note 13(b)(i)) broker warrants. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.05 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$362 and recorded as share issue costs. These broker warrants were exercised during the three months ended March 31, 2021.
- (ii) As part of the private placement that closed on February 9, 2021, the Company issued 862,000 (note 12(b)(iv)) broker warrants. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.05 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$26,119 and recorded as share issue costs.
- (iii) As part of the private placement that closed on September 29, 2021, the Company issued 304,000 (note 12(b)(v)) broker warrants. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.06 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$9,567 and recorded as share issue costs.

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

	As at September 30, 2021	As at December 31, 2020
Risk-free interest rate	0.26%	0.61%
Expected life	1 year	1 year
Expected volatility	175.71%	135.53%
Fair value per broker warrant	\$0.03	\$0.01

g) Contributed surplus

	As at September 30, 2021	As at December 31, 2020
Balance, beginning of the period	6,557,729	6,021,991
Share-based payments (note 12(d))	107,815	105,040
Expiry of warrants (note 12(e))	231,025	440,033
Expiry of warrant share issue costs (note 12(e))	(6,584)	(9,697)
Broker warrants issued (note 12(f))	35,686	362
Exercise of stock options	(23,057)	-
Exercise of broker warrants	(1,270)	-
BALANCE, END OF PERIOD	6,901,344	6,557,729

13. Related party transactions

Related party transactions during the three months ended September 30, 2021 not disclosed elsewhere in these consolidated financial statements are as follows:

- A total of \$33,500 (September 30, 2020 - \$32,700) in consulting fees and \$7,500 (September 30, 2020 - \$7,500) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to a Director and officer of the Company. The Director, in turn, participated in the September 29, 2021 private placement for an amount totaling \$18,000 (September 2020 - \$57,500).
- Aggregate legal fees of \$nil (September 30, 2020 - \$14,869) were charged by a law firm in which a director of the Company is a partner, of which \$nil (September 30, 2020 - \$1,575) were expensed as general and administrative expenses and \$nil (September 30, 2020 - \$13,294) were charged to share capital as share issue costs.
- Fees of \$3,210 (September 30, 2020 - \$4,015) were paid to a USA based company in which a Director and officer of Marksmen Energy Inc. is an owner.

Related party transactions during the nine months ended September 30, 2021 not disclosed elsewhere in these consolidated financial statements are as follows:

- A total of \$96,200 (September 30, 2020 - \$98,479) in consulting fees and \$22,500 (September 30, 2020 - \$22,500) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to a Director and officer of the Company. The Director, in turn, participated in the Company's February 9, 2021 and September 29, 2021 private placements for an amount totaling \$64,000 (September 2020 - \$71,000).
- Aggregate legal fees of \$21,858 (September 30, 2020 - \$29,134) were charged by a law firm in which a director of the Company is a partner, of which \$12,262 (September 30, 2020 - \$9,164) were expensed as general and administrative expenses and \$9,496 (September 30, 2020 - \$19,970) were charged to share capital as share issue costs.

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- f) Fees of \$13,183 (September 30, 2020 - \$11,239) were paid to a USA based company in which a Director and officer of Marksmen Energy Inc. is an owner.
- g) As at September 30, 2021, the Company has accounts payable and accrued liabilities totaling \$21,729 (December 31, 2020 – \$45,063) owing to related parties relating to the above transactions.

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

14. Financial risk management

(a) Fair values:

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

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

(b) Credit risk:

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

As at September 30, 2021, the Company had cash of \$501,101 (December 31, 2020 - \$135,627), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at September 30, 2021, the Company's accounts receivable consisted of \$97,064 receivable from oil and natural gas marketing companies (December 31, 2020 - \$34,713), \$11,548 receivable from joint venture working interest owners (December 31, 2020 - \$25,529) and \$3,050 related to goods and service tax owing from the Government of Canada (December 31, 2020 - \$5,660). As at September 30, 2021, 72% (December 31, 2020 - 53%) 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. 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.

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Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and other receivable at September 30, 2021 and December 31, 2020, excluding any impaired accounts, are as follows:

	As at September 30, 2021	As at December 31, 2020
Days outstanding		
0-30 days	104,774	51,359
31-60 days	6,888	14,543
Trade and other receivables, net of allowance	111,662	65,902

The Company assessed the credit loss risk as \$nil at September 30, 2021 and December 31, 2020 based on historical data and future expectations and there was no allowance recorded against the accounts receivable.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At September 30, 2021, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of \$456,657 (December 31, 2020 - \$331,460) and the short-term loan of \$74,000 (December 31, 2020 - \$nil), which are all due over the next twelve months, and the secured debentures balance of \$1,222,299 (note 10), which matures on December 31, 2022. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities.

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

(d) Market risk:

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

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

(i) Commodity price risk:

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as oil and natural gas prices are impacted by world economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when deemed appropriate. The Company did not have any commodity price contracts in place as at or during the nine months ended September 30, 2021 or 2020. A 20% change in price per bbl in commodity process would impact petroleum and natural gas sales by approximately \$65,000 for the nine months ended September 30, 2021 (September 30, 2020 - \$40,000).

(ii) Foreign currency risk:

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company regularly converts Canadian currency into United States currency to provide funds for its Ohio based projects. The Company currently sells oil or natural gas in foreign currencies and the underlying market prices in Canada for oil and natural gas fluctuate with changes in the exchange rate between the Canadian and the United States dollar, thus exposing the Company to foreign currency exchange risk. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar

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applied to the average level of US denominated cash during the nine months ended September 30, 2021 would not have a material impact on the Company's loss.

As at September 30, 2021 and December 31, 2020, the Company had no forward exchange rate contracts in place.

The Company had the following financial instruments denominated in USD:

	September 30, 2021	December 31, 2020
Cash	481,883	101,886
Trade and other receivables	102,612	60,242
Accounts payable and accrued liabilities	179,173	24,614

(iii) Interest rate risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have short or long term interest bearing debt with variable interest rates and therefore is only exposed to interest rate risk through its cash holdings. The Company's secured debentures bear a fixed interest rate (note 10).

The Company has no interest rate swaps or financial contracts in place as at or during the nine months ended September 30, 2021 or December 31, 2020.

15. Commitments

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

At September 30, 2021, included in deposits and prepaid expenses is an amount of \$41,790 on deposit with the AER associated with the Company's operated wells in Alberta (December 31, 2020 - \$41,633). The AER has indicated that a higher deposit may be required. Since all wells in Alberta are either abandoned or shut-in, the Company has decided to continue negotiations with the AER to bring certain wells back on production to add positive deemed asset valuation.

- b) The Surface Rights Board ("SRB") is a quasi-judicial tribunal in Alberta that has a dispute resolution process to resolve issues of non-payment of surface leases to landowners by oil and gas companies. On September 18, 2018, Marksmen was served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections, and as of September 30, 2021 the Judgement totals \$127,077 (December 31, 2021 - \$97,848). The amounts owing are related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010. Marksmen has an Assignment of Surface Rights agreement with the third-party, effective August 1, 2010 whereby the responsibility for the payment of surface leases is with the third party. The third-party does not dispute this agreement and agrees they are responsible for the payment of surface leases. The third-party made a partial payment to Service Alberta in November 2018.

On April 4, 2019, SRB ruled and agreed 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 payments, their ability to reimburse the Company for the costs is unlikely, and accordingly, the accrued payment has been recorded as bad debt expense in the prior year. The Company will continue to review its options and continue discussions with SRB regarding an appeal of these rulings.

Marksmen did agree to retain a nominal 1% working interest in the sold properties and act as the operator of the wells on the behalf of the third-party company. Marksmen's position on this judgement is that the assignment of Surface Rights agreements takes precedent while the SRB asserts that the provincial laws governing the SRB places the responsibility on the operator as defined by Alberta law governing SRB and the Alberta Energy Regulator.

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16. Segmented information

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

Geographical segmentation is as follows:

	For the nine months ended September 30, 2021		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	376,204	376,204
Depletion and depreciation	(134,384)	110,666	(23,718)
Net loss (income)	523,424	(10,359)	513,065
Exploration and evaluation assets	-	1,389,324	1,389,324
Property, plant and equipment	(115,918)	1,647,871	1,531,954
Total liabilities	1,769,009	391,771	2,160,780

	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)	509,237	(62,982)	446,255
Exploration and evaluation assets	-	1,940,471	1,940,471
Property, plant and equipment	918	1,922,685	1,923,603
Total liabilities	1,769,637	218,195	1,987,832

17. Capital management

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

The Company actively manages its capital structure which includes shareholders' equity and debt. In order to maintain or adjust its capital structure, the Company may from time-to-time issue shares and adjust its capital spending to manage current and projected debt levels. As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of current assets divided by current liabilities. At September 30, 2021, the working capital ratio was 0.99:1 (December 31, 2020 – 0.47:1) (note 1). The Board of Directors has not established quantitative return on capital criteria for management, but rather promotes conservative capital management. The Company is not subject to any externally imposed capital requirements.

At September 30, 2021 and December 31, 2020, the Company remains in compliance with all terms of the Debentures and based on current available information, management expects to comply with all terms during the subsequent 12-month period. However, in light of current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices, pipeline and transportation capacity constraints, and the effect of the Coronavirus (COVID-19), the preparation of financial forecasts is challenging.

18. Revenue

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

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19. Subsequent events

Subsequent to September 30, 2021, the Company completed the following:

- a) On November 5, 2021, the Company closed a private placement issuing a total of 14,913,330 units for aggregate proceeds of \$894,800. Each unit consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.09 per common share for a period of 24 months from issuance. In connection with the private placement, the Company incurred cash share issue costs of \$58,184, of which \$55,304 was paid by the issuance of 921,733 units. The Company also issued 969,733 broker warrants.
- b) On November 5, 2021, the Company granted stock options to purchase 2,920,000 common shares to directors, officers, employees and consultants. The stock options were issued with an exercise price of \$0.06 per share, vest as to one-third immediately and one-third on each of the first and second anniversaries of the grant date, and have a five-year term from the date of issuance.