Q2

TSX Venture – MAH **Report for the 3 and 6 months ended**

New York OTCQB Venture Marketplace – MKSEF **June 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 six months ended June 30, 2020 and was prepared with information available up to August 26, 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 expressed 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:

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 also calculated on a boe basis. Operating netback is useful in calculating field performance for internal management purposes.

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

Forward-Looking Statements

This Management's Discussion and Analysis may contain "forward-looking information" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included herein may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. This forward-looking information reflects the Company's current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to, the actual results of drilling and exploration being equivalent to or better than anticipated or historical results and future costs and expenses being based on historical costs and expenses, adjusted for inflation. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: the early stage development of the Company and its projects; general business, economic, competitive, political and social uncertainties; commodity prices; the actual results of current exploration and development or operational activities; competition; changes in project parameters as plans continue to be refined; accidents and other risks inherent in the natural resources industry; lack of insurance; delay or failure to receive board or regulatory approvals; changes in legislation, including environmental legislation, affecting the Company; timing and availability of external financing on acceptable terms; conclusions of economic evaluations; and lack of qualified, skilled labour or loss of key individuals. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Covid-19 Pandemic

The Covid-19 pandemic has impacted how we all work and live. Until appropriate medical treatments and eventually a vaccine is developed and made 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.

As of June 23, 2020, Marksmen has successfully defended a legal action initiated by Hocking Hills Energy and Well Services LLC ("HHE") related to the drilling of the Leaman #1 horizontal well in the Clinton Sandstone formation. In the settlement agreement HHE relinquished all claims against Marksmen and agreed to certain cash payments. Marksmen assigned its working interest ownership in the well in exchange for an overriding royalty interest.
See Settlement Agreement section.

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. These wells come with all of 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 with the second well planned for mid-September.

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 $CAD	**Q2 2020**	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Net Oil Production - bbls	**1,061**	1,327	824	2,410	2,109	2,031	3,070	3,459
Net Oil Production - bbls / day	**11.7**	14.6	9.0	26.2	23.2	22.6	33.4	37.6
Revenue - oil	**$ 43,389**	$ 81,393	$ 59,295	$ 175,352	$ 164,094	$ 143,647	$ 239,204	$ 309,083
Royalties	**$ (5,870)**	$ (10,781)	$ (7,910)	$ (22,888)	$ (21,484)	$ (18,945)	$ (31,244)	$ (40,147)
Production and operating expenses	**$ (12,727)**	$ (12,203)	$ (90,266)	$ (24,360)	$ (40,590)	$ (28,405)	$ (36,931)	$ (39,515)
Income (loss) from field operations	**$ 24,792**	$ 58,409	$ (38,881)	$ 128,104	$ 102,020	$ 96,297	$ 171,029	$ 229,421
Net Income (Loss)	**$ 20,767**	$ (359,908)	$ (3,230,835)	$ (164,562)	$ (198,364)	$ (285,629)	$ (275,620)	$ (77,841)
Total assets	**$ 4,285,644**	$ 4,238,388	$ 4,111,593	$ 6,898,200	$ 6,786,352	$ 6,831,801	$6,881,026	$6,243,527
Total liabilities	**$ 2,321,139**	$ 2,271,287	$ 2,232,667	$ 2,114,862	$ 2,010,856	$ 2,098,838	$2,241,952	$2,087,866
Total shareholder's equity	**$ 1,964,505**	$ 2,012,101	$ 1,878,926	$ 4,783,338	$ 4,775,496	$ 4,732,963	$4,639,074	$4,174,542
Total liabilities & equity	**$ 4,285,644**	$ 4,283,388	$ 4,111,593	$ 6,898,200	$ 6,786,352	$ 6,831,801	$6,881,026	$6,262,408
Government loan (re Covid 19)	**$ 40,000**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
(Canadian Emergency Business Account)								
Common shares issued & outstanding	**117,117,870**	117,117,870	113,237,590	107,993,590	106,713,590	100,813,590	96,736,643	93,561,641

Benchmark Pricing for Oil and Gas - $USD

Benchmark Prices $USD	Jan 2020	Feb 2020	Mar 2020	**Q1 Avg.**	Apr 2020	May 2020	Jun 2020	**Q2 Avg.**	July 2020
West Texas Intermediate (WTI) per BBl	$ 57.52	$ 50.54	$ 29.21	**$ 45.76**	$ 16.55	$ 28.56	$ 38.31	**$ 27.81**	$ 40.71
Nymex Henry Hub Natural Gas per Mcf	$ 2.02	$ 1.91	$ 1.79	**$ 1.91**	$ 1.74	$ 1.75	$ 1.63	**$ 1.71**	$ 1.77

For the past number of years all of Marksmen's revenue was solely derived from the production of oil only and priced by our marketers based on Western Petroleum Intermediate ("WTI") pricing. Effective July 2020, Marksmen will derive a portion of its revenue from the Meredith # 1 well that produces both oil and natural gas. Nymex Henry Hub reference prices are included.

The WTI average price per bbl. in Q2 of 2020 was $27.81 or $17.95 less than in Q1. In July of the third quarter prices have improved to the $40.71 level and August to date is approximately $42 per bbl.

Operating Netback – Ohio USA in $USD

	Three Months Ended					Six Months Ended			
	June 30	June 30				**June 30**	June 30		
$USD	**2020**	2019	Change	% Change		**2020**	2019	Change	% Change
Oil Production - bbls	**1,061**	2,109	(1,048)	(50)		**2,387**	4,140	(1,753)	(42)
Revenue	**$ 30,889**	$ 122,754	$ -91,865	(75)		**$ 91,409**	$ 230,759	$ (139,350)	(60)
Royalty expense	**$ (4,181)**	$ (16,070)	$ 11,889	(74)		**$ (12,197)**	$ (30,315)	$ 18,118	(60)
	$ 26,708	$ 106,684	-$ 79,976	(149)		**$ 79,212**	$ 200,444	$ (121,232)	(60)
Operating costs	**$ (6,947)**	$ (23,404)	$ 16,457	(70)		**$ (15,753)**	$ (41,952)	$ 26,199	(62)
Net Petroleum Income	**$ 19,761**	$ 83,280	$ -63,519	(76)		**$ 63,459**	$ 158,492	$ -95,033	(60)
Revenue / bbl	**$ 29.11**	$ 58.20	$ -29.09	(50)		**$ 38.29**	$ 55.74	$ -17.44	(31)
Royalty Expense / bbl	**$ (3.94)**	$ (7.62)	$ 3.68	(48)		**$ (5.11)**	$ (7.32)	$ 2.21	(30)
Operating costs / bbl	**$ (6.55)**	$ (11.10)	$ 4.55	(41)		**$ (6.60)**	$ (10.13)	$ 3.53	(35)
Netback from Operations/bbl	**18.62**	39.49	$ -20.86	(53)		**26.59**	38.28	$ -11.70	(31)

Operations – Total Company production in the second quarter of 2020 was 1,061 barrels compared to 2,109 in Q2 of 2019, a decrease of 1,048 barrels or 50% from the same period in 2019. Revenue in Q2 of 2020 is down by 75% compared to the same period in 2019 and is a function of lower production and a price per barrel that is 50% less than in the same period of 2019. In July, production from the Meredith #1 recompletion well will come on stream and will increase production.

Well Information - 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 put on production in July. The next re-complete well is planned for mid-September.

	Q2 2020			Q2 2019	
		Net			Net
Well Information	**Wells**	**Marksmen %**		Wells	Marksmen %
Production testing	-	-		1.0	60.0
Producing wells	**4.0**	**69.0**		3.0	67.5
Water injection well	**1.0**	**100.0**		1.0	100.0
Shut-in wells	**3.0**	**75.0**		2.0	75.0

Production Improvement and Optimization Plans for 2020

- Marksmen, in conjunction with Pep Drilling LLC, the operator, has completed its first Clinton Sandstone bypass recompletion well, Meredith #1, in Portage County, Ohio. The well is on production as of July 2020. It is being very conservatively managed by our partner and operator of the well. Their objective is to slowly and methodically, increase production over time, especially in times of lower oil prices. The well is currently producing about 14 bbls of oil and 30mcf or 5 boe per day of natural gas. The casing pressure is now set at 450 psi with a pumpjack stroke rate of three strokes per minute. Marksmen believes that the well can safely produce at higher rates of oil and gas without doing any harm to the well's reservoir and long-term viability. Marksmen will continue to encourage the operator to be somewhat more aggressive in the management of the well's production.

- At the Company's Strittmatter location there is an opportunity to complete an upper zone that was originally bypassed.

- At BJ78-11, there is a relatively minor downhole repair required that will bring this well back on production.

- At Davis-Holbrook, the Company's best well, there is a portion of the producing zone that was not perforated or acidized originally. Additionally, a change in the bottom hole pump configuration could increase the production back to higher levels.

- 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 been shut-in since 2010. Of these six wells, one well was abandoned at the time of drilling and four other wells were abandoned in August 2015. Equipment salvage operations of the abandoned wells has been completed in 2018 with additional reclamation work planned for late 2020 or 2021 and subject to funding by government grants. There were $3,065 of field operating costs related to surface leases and taxes charged to wells in Alberta.

In May 2020, the federal government, in conjunction with the Department of Energy of Alberta announced a multi-faceted, 100-million-dollar plus assistance grant package to facilitate job creation in the western Canadian oil and gas industry. Part of the funds are earmarked specifically to assist companies in abandoning and reclaiming oil and gas wells, facilities, and pipelines etc. Marksmen has applied to participate in this program. The approval process is in stages and will extend late into the fall of 2020.

Included in the program is an approval of a one time $139,000 grant to Marksmen to be used in a manner as agreed by Alberta Energy. Marksmen has earmarked the abandonment of the one remaining deep and complex well at Alder Flats to be funded by this part of the program. Additionally, at Alder flats the Company is awaiting approval for funding of the reclamation of five wells.

At Penhold, where Marksmen is not the owner of certain wells but deemed to be the operator by the Alberta Energy Regulator and the Alberta Department of Energy, approval has been received for the reclamation of certain wells. Unfortunately, these wells have not yet been approved for abandonment funding that must come first. This approval or rejection of abandonments is expected in the next week or two. The owner of these wells also qualifies for the $139,000 grant and these funds can be used for abandonment of some wells, if for some reason the abandonment approvals do not materialize.

Operating Netback in $CDN

	Three Months Ended					Six Months Ended			
	June 30	June 30				**June 30**	**June 30**		
$CAD	**2020**	2019	**Change**	**% Change**		**2020**	2019	**Change**	**% Change**
Oil Production - bbls	**1,061**	2,109	(1,048)	(50)		**2,387**	4,140	(1,753)	(42)
Revenue	**$ 43,389**	$ 164,094	$ (120,705)	$ (74)		**$ 124,782**	$ 307,741	$ (182,959)	$ (59)
Royalty expense	**$ (5,870)**	$ (21,484)	$ 15,614	$ (73)		**$ (16,591)**	$ (40,429)	$ 23,838	$ (59)
	$ 37,519	$ 142,610	$ (105,091)	$ (146)		**$ 108,191**	$ 267,312	$ (159,121)	$ (60)
Operating costs	**$ (12,727)**	$ (40,590)	$ 27,863	$ (69)		**$ (24,930)**	$ (68,995)	$ 44,065	$ (64)
Net Petroleum Income	**$ 24,792**	$ 102,020	$ (77,228)	$ (76)		**$ 83,261**	$ 198,317	$ (115,056)	$ (58)
Revenue / bbl	**$ 40.89**	$ 77.81	$ (36.91)	$ (47.44)		**$ 52.28**	$ 74.33	$ (22.06)	$ (29.67)
Royalty Expense / bbl	**$ (5.53)**	$ (10.19)	$ 4.65	$ (45.69)		**$ (6.95)**	$ (9.77)	$ 2.81	$ (28.82)
Operating costs / bbl	**$ (12.00)**	$ (19.25)	$ 7.25	$ (37.67)		**$ (10.44)**	$ (16.67)	$ 6.22	$ (37.33)
Netback from Operations/bbl	**$ 23.37**	$ 48.37	$ (25.01)	$ (51.70)		**$ 34.88**	$ 47.90	$ (13.02)	$ (27.18)

Production – decreased by 1,048 barrels or 50% in Q2 of 2020 compared to the same period in 2019.

Oil Revenue - for the quarter ended June 30, 2020 decreased 74% compared to the same quarter in 2019. The decrease is due to a combination of lower production and lower commodity prices. Revenue is paid to Marksmen directly by the oil marketing company and is based on their monthly pricing schedule derived from the daily posted West Texas Intermediate oil ("WTI") prices.

Royalties - are paid by the oil marketing company at 12.5% of revenue directly to the landowners of record as determined by Marksmen. Total royalties paid in the second quarter of 2020 were $5,870 compared to $21,484 in the same quarter of 2019.

Operating Expenses – during the second quarter of 2020 the operating expenses were lower by $27,863 compared to Q2 of 2019. There were fewer workover costs, lower variable costs, and fewer one-time charges in 2020.

General and Administrative Expenses

	Three Months Ended					Six Months Ended			
	June 30	June 30		%		June 30	June 30		%
General & Administrative	**2020**	**2019**	**Change**	**Change**		**2020**	**2019**	Change	Change
Employee Compensation	**$ 26,720**	$ 30,446	$ (3,726)	(12)		**$ 55,674**	$ 61,951	$ (6,277)	(10)
Management consulting services	**$ 37,500**	$ 35,700	$ 1,800	5		**$ 62,800**	$ 71,400	$ (8,600)	(12)
Professional fees	**$ 28,976**	$ 22,840	$ 6,136	27		**$ 35,476**	$ 37,828	$ (2,352)	(6)
Investor relations	**$ 3,207**	$ 11,657	$ (8,450)	(72)		**$ 6,221**	$ 23,892	$ (17,671)	(74)
Filing and listing fees	**$ 6,531**	$ 10,716	$ (4,185)	(39)		**$ 13,892**	$ 25,279	$ (11,387)	(45)
Ohio management and administration	**$ 3,115**	$ 3,200	$ (85)	(3)		**$ 4,816**	$ 6,324	$ (1,508)	(24)
Insurnace	**$ 6,957**	$ 14,648	$ (7,691)	(53)		**$ 13,568**	$ 28,090	$ (14,522)	(52)
Copmputer software and support	**$ 5,183**	$ 4,969	$ 214	4		**$ 9,263**	$ 9,454	$ (191)	(2)
Office and Storage	**$ 12,525**	$ 12,525	$ -	-		**$ 25,050**	$ 25,050	$ -	-
General and administrative - other	**$ 3,868**	$ 3,704	$ 164	4		**$ 6,949**	$ 6,699	$ 250	4
	$ 134,581	$ 150,405	$ (15,824)	(11)		**$ 233,708**	$ 295,967	$ (62,259)	(21)

The Company has categorized its administrative expenses as above. Overall, the G&A has reduced by $62,259 in the first six months of 2020 compared to the same period in 2019.

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

Management Consulting Fees – These fees are related to fees to a professional corporation of a senior executive for services related to the overall management of the Company and some administrative costs. This executive always participates in the private placements of the Company, often matching his compensation.

Professional Fees – Consist of legal fees, reserve engineering, audit, and accounting services in Canada and the USA. In Marksmen Energy USA there were $8,937 of one-time legal fees in the second quarter of 2020 related to the settlement agreement reached in June of 2020.

Investor Relations – Are costs incurred to raise capital for the drilling opportunities in Ohio. Expenses related to travel, investor conferences, and use of investment consultants throughout North America were $8,407 less in 2020 compared to the same period of 2019 due to less travel due to Covid19.

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

Ohio Management and Administrative Expenses – Marksmen's administrative activities in the USA in 2020 continue to be focused on developing its oil and gas operations in Ohio.

Insurance – The Company's efforts in 2019 to reduce overall insurance costs has resulted in a reduction in Q2 2020 of $7,691 and over $14,000 year to date in 2020 compared to 2019.

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

Office and Storage – includes rent of office space and costs associated with off-site storage.

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

Selected Other Expenses

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

Depletion – In the second quarter of 2020 depletion totaled $24,658 or $23.24 per barrel compared to $51,551 or $22.33 per barrel of oil produced in the second quarter of 2019.

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

Impairment – The continued depressed commodity prices experienced in the first quarter of 2020 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 in the amount of $213,020 was recorded in the statement of loss and comprehensive loss in Q1, 2020.

In Q2, as a result of the settlement agreement reached between Marksmen and Hocking Hills Energy and Well Services LLC, Marksmen recorded a gain on disposal of property and equipment of $16,654, and a recovery of $242,192 of the 2,774,276 impairment of Exploration and Evaluation assets booked at year end 2019.

Financial Position – Highlights

	Jun 30, 2020	Dec 31, 2019	Change	**% Change**
Assets				
Current assets	**$ 305,978**	$ 204,590	$ 101,388	**50**
Exploration and evaluation assets	**$ 1,972,721**	$ 1,901,306	$ 71,415	**4**
Property and equipment	**$ 2,006,945**	$ 2,005,697	$ 1,248	**0**
	$ 4,285,644	$ 4,111,593	$ 174,051	**4**
Liabilities				
Accounts payable and accruals	**$ 594,763**	$ 559,673	$ 35,090	**6**
Secured debentures	**$ 1,238,318**	$ 1,227,400	$ 10,918	**1**
Government Loan CEBA	**$ 40,000**	$ -	$ 40,000	-
Decommissioning liabilities	**$ 448,058**	$ 445,594	$ 2,464	**1**
	$ 2,321,139	$ 2,232,667	$ 88,472	**4**
Equity				
Share capital, contributed surplus & other	**$ 27,153,447**	$ 26,728,727	$ 424,720	**2**
Deficit	**$ (25,188,942)**	$ (24,849,801)	$ (339,141)	**1**
	$ 1,964,505	$ 1,878,926	$ 85,579	**5**
Liabilities and equity	**$ 4,285,644**	$ 4,111,593	$ 174,051	**4**

Assets – Current assets increased by $101,388 as of June 30, 2020 compared to Dec 31, 2019. Accounts receivable increased by $109,024 related to settlement funds owed by HHE due in July and August of 2020. Cash decreased by $52,345 compared to year end 2019.

Liabilities – Accounts payable and accruals remain approximately the same as of June 30, 2020 compared to year end 2019. In Q2 there was a reduction of approximately $240,000 in accounts payable related to the settlement agreement with HHE; an increase of $113,500 related to shares issuable that were not closed until the third quarter and approximately $150,000 owed on capital projects that were not paid until the third quarter.

In Q2, Marksmen received a loan of $40,000 from the federal government under the Canadian Emergency Business Account related to the Covid19 pandemic. ***See Government Loan section for details.***

Equity – as of June 30, 2020, share capital, contributed surplus, and accumulated other comprehensive income increased by $424,083 compared to year end 2019. The deficit increased by $339,141 from December 31, 2019 to June 30, 2020.

Capital Expenditures

Exploration and Evaluation (E&E) at Cost		**Jun 30, 2020**		Dec 31, 2019
Balance, beginning of period	**$**	**1,901,307**	$	4,545,574
Expenditures on Exploration and Evauluation	**$**	**(241,784)**	$	426,464
Transfer to Property and Insurance	**$**	**-**	$	(155,466)
Impairment of E&E assets	**$**	**242,192**	$	(2,777,427)
Foreign currency adjustment	**$**	**71,007**	$	(137,838)
Balance, end of year	**$**	**1,972,722**	$	1,901,307

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As of June 30, 2020, the Company has $1,972,721 in E&E assets. During the six months ended June 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 $241,784 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 $242,192. As of June 30, 2020, there were no indicators of additional impairment of the E&E assets.

Property and Equipment (PP&E) at Cost	Jun 30, 2020	Dec 31, 2019
Balance beginning of period	4,132,123	4,089,833
Expenditures on property and equipment	277,497	
Disposal of property and equipment	(92,398)	
Transfers from E&E	-	155,466
Change in estimate of decommissioning liabilities	(11,965)	57,819
Foreign currency adjustment	177,842	(170,995)
Balance, end of year	4,483,099	4,132,123
Accumulated Depletion and Impairment	**June 30, 2020**	Dec 31, 2019
Balance, beginning of period	(2,127,553)	(2,014,512)
Depletion	(54,762)	(188,537)
Impairment of PPE assets	(216,220)	-
Foreign Currency Translation	(78,607)	75,496
	(2,477,142)	(2,127,553)
Net Carrying Amount, end of period	$ 2,005,957	$ 2,004,570

There were $277,497 of expenditures related to the Meredith #1 well included as PPE in the second quarter of 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 $213,020 was recorded in the statement of loss and comprehensive loss. There were no indicators of additional impairment in the second 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 were held-back, and the joint venture audit was initiated due to significant cost over-runs during the drilling and completion of the well by the Operator. 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.

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 it's 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 received $60,000 USD subsequent to June 30, 2020, and the second payment of $20,000 USD is due on or before August 31, 2020. The Operator may defer the second payment until September 30, 2020, however if the deferral is exercised, the second payment will increase by $10,000 USD to $30,000 USD. 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

Marksmen has estimated the net present value of the decommissioning liabilities to be $448,058 (December 31, 2019 - $445,594). The total undiscounted amount of estimated future cash flows is $467,664 (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 0.25% (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 0.45% (December 31, 2019 – 1.71%).

During the year ended December 31, 2015, the Company completed the abandonment of substantially all its Canadian petroleum and natural gas assets. Reclamation of these assets is continuing in 2020. Marksmen has applied for abandonment and reclamation assistance under a multi-million-dollar program being administered by the Alberta Department of Energy on behalf of the federal government of Canada.

Secured Debenture

On June 28, 2013, the Company closed a secured debenture for gross proceeds of $750,000. The debenture included 2,666,667 share purchase warrants at $0.17, bore interest of 12% per annum, and the interest payments were due and payable semi-annually on December 31 and June 30 of each year. The maturity date was originally January 31, 2016 but by agreement it was extended to December 31, 2018. The Company fulfilled all interest payment requirements.

On June 19, 2015, the Company closed an additional secured debenture for gross proceeds of $500,000 with the same interest rate per annum and payment terms as above. This debenture included 1,777,778 share purchase warrants at $0.25 and a maturity date of December 31, 2018. All share purchase warrants expired on December 31, 2018. The Company fulfilled all interest payment requirements.

On January 29, 2019, the Company replaced the previous debentures with one in the amount of $1,250,000 at the same interest rate per annum and payment terms and included 1,800,000 share purchase warrants issued for $0.24 if exercised before April 30, 2019 and at $0.22 thereafter. The debenture expiry date was December 31, 2019.

On June 28, 2019, the Company revised the debenture, of $1,250,000 with the same interest and payment dates but with an extended maturity date to December 31, 2020. It included 1,800,000 share purchase warrants at $0.10. The Company has fulfilled all interest payment requirements.

On July 1, 2020, the Debenture maturity date was agreed to be extended from December 31, 2020 to December 31, 2021. In connection with the extension to the maturity date, the Company has modified the warrant exercise price on the 1,800,000 warrants issued from $0.10 to $0.075, subject to regulatory approval. All other terms of the Debenture remain the same.

Government Loan

On April 22, 2020, Marksmen 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.

Share Capital

For a detailed explanation of the transactions in the first six months of 2020 and previously for common shares, warrants, broker warrants and stock options please refer to Note 11, Share Capital, in Marksmen's consolidated financial statements for the three and six months period ended June 30, 2020. The chart below is a summary of share capital and includes the balances as of August 26, 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	3,880,280	-	3,880,280	-
Stock Options Expired	-	(550,000)	-	-
Warrants Expired	-	-	(1,729,205)	-
Broker warrants issued	-	-	-	32,000
Broker warrants expired	-	-	-	(56,000)
Banace at June 30, 2020	**117,117,870**	**10,524,000**	**16,516,781**	**36,000**
Private Placement	6,420,000	-	-	-
warrants issued	-	-	6,420,000	-
Stock Options Expired	-	-	-	-
Warrants expired	-	-	-	-
Balance at Aug 26, 2020	**123,537,870**	**10,524,000**	**22,936,781**	**36,000**

Share-based Payments

During the six months ended June 30, 2020, the Marksmen 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 six months ended June 30, 2020 was $30,141 and $65,180, respectively (June 30, 2019 - $67,083 and 128,314, respectively), of which $30,141 and $65,180, respectively, has been recorded in the statement of net income (loss) and comprehensive income (loss) (June 30, 2019 $64,414 and $122,236, respectively) and $nil has been capitalized as E&E (June 30, 2019 - $2,669 and $6,078, respectively), all of which has been recorded as an offsetting credit to contributed surplus.

Subsequent Events

On July 17, 2020 and July 27, 2020, the Marksmen closed a private placement issuing a total of 6,420,000 units for aggregate proceeds of $321,000. 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 $0.075 per common share for a period of 24 months from issuance. The private placement is on-going, and a final closing is expected on or before September 4, 2020.

Related Party Transactions

Related party transactions during the three months ended June 30, 2020 not disclosed elsewhere in these consolidated financial statements are as follows:

A total of $37,500 (June 30, 2019 - $30,446) in consulting fees and $7,500 (June 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 of the Company and/or Directors of Marksmen Energy USA, Inc. of which $nil (June 30, 2019 - $nil) were capitalized as E&E costs. The Canadian based executive of Marksmen consistently participates in private placements, exercising of warrants and stock options approximating the total of his fees charged.

Aggregate legal fees of $7,589 (June 30, 2019 - $20,688) were charged by a law firm in which a director of the Company is a partner, of which $7,589 (June 30, 2019 - $12,791) were expensed as general and administrative expenses and $nil (June 30, 2019 - $7,897) were charged to share capital as share issue costs.

Related party transactions during the six months ended June 30, 2020 not disclosed elsewhere in these consolidated financial statements are as follows:

A total of $62,800 (June 30, 2019 - $66,146) in consulting fees and $15,000 (June 30, 2019 - $15,000) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to Directors of the Company and/or Directors of Marksmen Energy USA, Inc. of which $nil (June 30, 2019 - $4,561) were capitalized as E&E costs. The Canadian based executive of Marksmen consistently participates in private placements, exercising of warrants and stock options approximating the total of his fees charged.

Aggregate legal fees of $14,265 (June 30, 2019 - $27,996) were charged by a law firm in which a director of the Company is a partner, of which $7,589 (June 30, 2019 - $20,099) were expensed as general and administrative expenses and $6,676 (June 30, 2019 - $7,897) were charged to share capital as share issue costs.

As of June 30, 2020, the Company has accounts payable and accrued liabilities totaling $41,604 (December 31, 2019 – $39,755) owing to related parties relating to the above transactions.

All of 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.

At June 30, 2020, included in deposits and prepaid expenses is an amount of $41,529 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, 2018, Marksmen has been served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections with a balance at June 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 June 30, 2020, Marksmen had not yet achieved profitable operations, had accumulated a deficit of $25,188,942 (December 31, 2019 - $24,849,801) a negative working capital of $1,527,103 (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, continuing to be able to renegotiate the secured debentures that mature on December 31, 2020 (subsequent to June 30, 2020, the maturity date was extended to December 31, 2021 (note 9)), 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 at June 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 one private placement during the six months ended June 30, 2020 and completed a second private placement subsequent to June 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 Marksmen 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 June 30, 2020, the Company had cash of $60,858 (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 June 30, 2020, the Company's accounts receivable consisted of $22,843 receivable from oil and natural gas marketing companies (December 31, 2019 - $15,081), $109,024 receivable related to a settlement agreement (December 31, 2020 nil, $46,164 receivable from joint venture working interest partners (December 31, 2019 - $2,752) and $3,817 related to goods and service tax owing from the Government of Canada (December 31, 2019 - $11,540). As at June 30, 2020, 12.5% (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 June 30, 2020 and December 31, 2019, excluding any impaired accounts, are as follows:

Days outstanding	As at June 30, 2020	As at December 31, 2019
0-30 days	178,015	17,833
31-60 days	3,833	11,540
Trade and other receivables, net of allowance	**181,848**	**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 – is the risk that the Company will not be able to meet its financial obligations as they fall due. At June 30, 2020 the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $594,763 (December 31, 201 - $559,673), which are all due over the next twelve months, and the secured debentures balance of $1,238,318, which matures on December 31, 2020. Subsequent to June 30, 2020, the maturity date of the secured debenture has been extended from December 31, 2020 to 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.

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 - 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 three months ended June 30, 2020 or at the year ended December 31, 2019. A 20% change is price per barrel in commodity prices would impact petroleum and natural gas sales by approximately $21,000 (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 at June 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:

	June 30, 2020	December 31, 2019
Cash	53,254	106,514
Trade and other receivables	178,015	17,833
Accounts payable and accrued liabilities	222,858	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 June 30, 2020 and the year ended December 31, 2019.

Segmented Information

Marksmen'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 six months ended June 30, 2020	
	Canada	Unites States	Total
Petroleum and natural gas sales	-	124,782	124,782
Depletion and depreciation	138	54,762	54,900
Net loss (income) and comprehensive loss (income)	377,923	(38,783)	339,140
Exploration and evaluation assets	-	1,972,721	1,972,721
Property, plant and equipment	987	2,005,957	2,006,945
Total liabilities	1,886,859	434,280	2,321,139

		For the six months ended June 30, 2019	
	Canada	Unites States	Total
Petroleum and natural gas sales	-	307,741	307,741
Depletion and depreciation	200	100,680	100,880
Net loss (income) and comprehensive loss (income)	588,993	(105,000)	483,993
Exploration and evaluation assets	-	4,618,730	4,618,730
Property, plant and equipment	1,327	1,902,375	1,903,702
Total liabilities	1,673,958	336,898	2,010,856

Outlook

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

As of June 23, 2020, Marksmen has successfully defended a legal action initiated by Hocking Hills Energy and Well Services LLC ("HHE") related to the drilling of the Leaman #1 horizontal well in the Clinton Sandstone formation. In the settlement agreement HHE relinquished all claims against Marksmen and agreed to certain cash payments. Marksmen exchanged its working interest ownership in the well for an overriding royalty interest.
see Settlement Agreement section.

In 2019 Marksmen executed a Joint Operating Agreement ("JOA") with PEP Drilling Inc., 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. These wells come with all of 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. In the JOA, Marksmen also has the right of first refusal to participate in the drilling of other wells on PEP lands. The first well was completed in the June of 2020 and put on production in July with the second well planned for mid-September.

As oil prices continue to improve from their lows in April 2020 and as the oil industry becomes more adept in operating in the Covid19 environment Marksmen looks forward to moving forward and re-completing additional wells in Portage County, Ohio, and to optimize certain wells in Pickaway County, Ohio.

In order 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.

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.