

Marksmen Energy Inc.

Consolidated Financial Statements

For the three and six months ended June 30, 2020 and 2019

(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 six months ended June 30, 2020 and 2019.

Marksman Energy Inc.

Consolidated Statements of Financial Position

As at:

(Canadian \$)	June 30, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash	60,858	113,203
Trade and other receivables (note 13(b))	181,848	29,373
Deposits and prepaid expenses (note 14(a))	63,272	62,014
Total Current Assets	305,978	204,590
Exploration and evaluation assets (note 5)	1,972,721	1,901,306
Property and equipment (note 6)	2,006,945	2,005,697
TOTAL ASSETS	4,285,644	4,111,593
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	594,763	559,673
Secured debentures (note 9)	1,238,318	1,227,400
Total Current Liabilities	1,833,081	1,787,073
Government loan (note 10)	40,000	-
Decommissioning liabilities (note 8)	448,058	445,594
	2,321,139	2,232,667
SHAREHOLDERS' EQUITY		
Share capital (note 11(b))	19,508,544	19,374,311
Warrants (note 11(e))	482,341	711,865
Contributed surplus (note 11(g))	6,368,200	6,021,991
Accumulated other comprehensive income	794,362	620,560
Deficit	(25,188,942)	(24,849,801)
	1,964,505	1,878,926
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,285,644	4,111,593
Going concern (note 1)		
Commitments (note 14)		
Subsequent events (note 9 and 18)		

Approved by the Board of Directors:

Signed "Donald D. Jones"

Donald Jones

Signed "Archie J. Nesbitt"

Archie Nesbitt

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

Marksman Energy Inc.

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) For the Three and Six Months Ended:

(Canadian \$)	<u>Three months ended</u>		<u>Six months ended</u>	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
REVENUE				
Petroleum and natural gas sales (note 17)	43,389	164,094	124,782	307,741
Royalties	(5,870)	(21,484)	(16,651)	(40,429)
	37,519	142,610	108,131	267,312
EXPENSES				
Production and operating expenses	12,727	40,590	24,930	68,995
Depletion and depreciation (note 6)	24,658	51,551	54,900	100,880
General and administrative	134,581	150,405	233,708	295,967
Share-based payments (note 11(d))	30,141	64,614	65,180	122,236
Loss from operations	(164,588)	(164,550)	(270,587)	(320,766)
FINANCE EXPENSE				
Interest expense (note 9)	37,500	36,884	75,000	74,384
Foreign exchange loss	25,350	-	21,231	-
Accretion of secured debentures (note 9)	5,459	(5,459)	10,918	-
Accretion of decommissioning liabilities (note 8)	1,963	2,389	3,897	4,774
Bad debt expense	-	-	-	79,240
	(70,272)	(33,814)	(111,046)	(158,398)
OTHER EXPENSES				
(Loss) on abandonment estimates	(19)	-	(133)	(4,829)
Gain on disposal of property and equipment (note 4)	16,654	-	16,654	-
Recovery of exploration and evaluation impairment (note 4)	242,192	-	242,192	-
Property and equipment impairment (note 6)	(3,200)	-	(216,220)	-
	255,627	-	42,493	(4,829)
NET INCOME (LOSS)	20,767	(198,364)	(339,140)	(483,993)
Other comprehensive income (loss) that may subsequently be transferred to net loss				
Currency translation adjustment	98,504	(123,495)	173,802	(239,951)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	119,271	(321,859)	(165,338)	(723,944)
Basic and diluted loss per share (note 11(h))	0.00	(0.00)	(0.00)	(0.01)
Weighted average number of common shares outstanding during the period	117,117,870	100,943,261	115,412,253	99,481,184

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

Marksman 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, 2019	19,374,311	711,865	6,021,991	(24,849,801)	620,560	1,878,926
Loss for the period	-	-	-	(339,140)	-	(339,140)
Translation differences on foreign subsidiaries	-	-	-	-	173,802	173,802
Private placement (note 11(b))	140,488	53,526	-	-	-	194,014
Broker warrants (note 11(f))	(262)	(100)	362	-	-	-
Cash share issue costs (note 11(b))	(5,993)	(2,283)	-	-	-	(8,276)
Reallocation of warrant fair value on expiry (note 11(e))	-	(280,667)	280,667	-	-	-
Share-based payments (note 11(d))	-	-	65,180	-	-	65,180
BALANCE AS AT JUNE 30, 2020	19,508,544	482,341	6,368,200	(25,188,942)	794,362	1,964,505
BALANCE AS AT DECEMBER 31, 2018	18,679,181	792,170	5,295,078	(20,970,411)	843,056	4,639,074
Loss for the period	-	-	-	(483,993)	-	(483,993)
Translation differences on foreign subsidiaries	-	-	-	-	(239,951)	(239,950)
Private placement (note 11(b))	440,558	242,442	-	-	-	683,000
Broker warrants (note 11(f))	(2,167)	(1,135)	3,302	-	-	-
Cash share issue costs (note 11(b))	(10,046)	(5,449)	-	-	-	(15,495)
Exercise of warrants (note 11(e))	9,000	-	-	-	-	9,000
Reallocation of warrant fair value on exercise (note 11(e))	6,402	(6,402)	-	-	-	-
Reallocation of warrant fair value on expiry (note 11(e))	-	(100,078)	100,078	-	-	-
Private placement of secured debenture (note 9)	-	32,804	-	-	-	32,804
Exercise of stock options (note 11(c))	5,950	-	-	-	-	5,950
Reallocation of stock option fair value on exercise (11(c))	4,640	-	(4,640)	-	-	-
Exercise of broker warrants (note 11(f))	16,792	-	-	-	-	16,792
Share-based payments (note 11(d))	-	-	128,314	-	-	128,314
BALANCE AS AT JUNE 30, 2019	19,150,310	954,352	5,522,132	(21,454,403)	603,105	4,775,496

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

Marksmen Energy Inc.

Consolidated Statements of Cash Flows

(Canadian \$)	June 30, 2020	June 30, 2019
CASH FLOW (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	(339,140)	(483,993)
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation (note 6)	54,900	100,880
Gain on disposal of property and equipment (note 4)	(16,654)	-
Accretion of decommissioning liabilities (note 8)	3,897	4,774
Accretion of secured debentures (note 9)	10,918	-
Change in estimates (note 8)	133	4,829
Property and equipment impairment (note 6)	216,220	-
Recovery of exploration and evaluation impairment (note 4)	(242,192)	-
Share-based payments (note 11(d))	65,180	122,236
Change in trade and other receivables	(152,475)	18,578
Change in deposits and prepaid expenses	387	2,072
Change in accounts payable and accrued liabilities	11,564	(56,818)
CASH FLOW USED IN OPERATING ACTIVITIES	(387,263)	(287,442)
INVESTING ACTIVITIES		
(Recovery of) expenditures on exploration and evaluation (note 4 and 5)	241,784	(233,967)
Expenditure on property and equipment (note 6)	(277,497)	-
Disposal of property and equipment (note 4)	109,208	-
Change in non-cash working capital	23,526	(154,947)
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES	97,021	(388,914)
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs (note 11(b))	185,738	667,505
Receipt of government grant (note 10)	40,000	-
Proceeds from exercise of warrants (note 11(b))	-	9,000
Proceeds from exercise of stock options (note 11(b))	-	5,950
Proceeds from exercise of broker warrants (note 11(f))	-	16,792
Proceeds from private placement of secured debenture (note 9)	-	1,250,000
Repayment of secured debentures (note 9)	-	(1,250,000)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	225,738	699,247
Foreign exchange effect on cash	12,158	1,429
(Decrease) increase in cash	(52,345)	24,320
Cash, beginning of period	113,203	107,685
CASH, END OF PERIOD	60,858	132,005

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

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

1 Reporting entity and going concern

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

At June 30, 2020, the Company 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 1 private placements during the six months ended June 30, 2020 (note 11(b)) and completed a second private placement subsequent to June 30, 2020 (note 18). 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

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

assets, liabilities, revenues, expenses, and financial position classifications may be necessary and such adjustments could be material.

2 Basis of presentation

a) Statement of compliance:

The interim consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB") using the accounting policies and methods of computation disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2019. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2019 and exclude certain disclosures required to be included in the annual financial statements.

The policies applied in these interim financial statements are based on International Financial Reporting Standards ("IFRS") issued on August 26, 2020, the date the Company's Board of Directors approved these interim consolidated financial statements.

b) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Marksman 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. Marksman Energy USA Inc.'s functional currency is United States Dollars.

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

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 the year ended December 31, 2012, the Company's share of the US Private Company ("US PrivateCo.") losses were in excess of Company's interest and accordingly the investment was reduced to \$nil. The Company has discontinued recognizing its share of any further losses.

The Company has suspended business negotiations with a US PrivateCo. initiated in the year ended December 31, 2011, and as at June 30, 2020, no assurance can be given that any agreement with US PrivateCo. will be reached with respect to either new business terms or moving forward with the necessary technical work to produce the properties. The impact to the Company is not known at this time.

4 Settlement Agreement

On June 23, 2020, the Company reached a settlement agreement (the "Agreement") with Hocking Hills Energy and Well Services LLC (the "Operator"), 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 totaling \$241,784 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 Company's financial statements at 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.

At 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.

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

As part of the Agreement, the Company agreed to assign to the Operator its 60% working interest in the Leaman #1 and the associated lands in the Area of Mutual Interest ("AMI"), in exchange for \$80,000 USD and a 5% overriding royalty interest related to its 60% interest in the Leaman #1 well and all future wells drilled in the AMI. The Company 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 is recorded in the statement of income (loss) and comprehensive income (loss).

5 Exploration and evaluation

	As at June 30, 2020	As at December 31, 2019
Balance, beginning of period	1,901,306	4,545,574
Expenditures on exploration and evaluation assets (note 4)	(241,784)	426,464
Transfers to property and equipment (note 6)	-	(155,466)
Impairment of property and equipment (note 4)	242,192	(2,777,427)
Foreign exchange translation	71,007	(137,838)
BALANCE, END OF PERIOD	1,972,721	1,901,306

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at June 30, 2020, the Company has \$1,972,721 in E&E assets (December 31, 2019 - \$1,901,306). During the six months ended June 30, 2020, there were no additions. Prior period additions represent the acquisition of undeveloped land, seismic activity and the drilling of a well that has not reached technical feasibility and commercial viability within Ohio, USA, and includes \$nil (December 31, 2019 - 8,628) of capitalized share-based payments and \$nil (December 31, 2019 - \$11,365) of capitalized consulting payments. During December 31, 2019, there were \$2,932,893 of E&E assets whereby technical feasibility and commercial viability had been reached, related to the Leaman #1 well. These assets were assessed for impairment prior to their transfer to property and equipment, and it was determined that the \$2,777,427 of the carrying amount to be transferred was impaired and accordingly, was expensed to the consolidated statement of net income (loss) and comprehensive income (loss) as an exploration and evaluation impairment (note 7). The remaining \$155,466 was deemed recoverable and transferred to property and equipment.

As at June 30, 2020, there were no indicators of impairment of the E&E balance.

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

6 Property and equipment

	As at June 30, 2020	As at December 31, 2019
Petroleum and natural gas assets	4,483,098	4,132,122
Corporate assets	20,385	20,385
Property and equipment at cost	4,503,484	4,152,508
Accumulated depletion and depreciation	(2,496,539)	(2,146,811)
PROPERTY AND EQUIPMENT NET CARRYING AMOUNT	2,006,945	2,005,697

Petroleum and natural gas assets

COST	As at June 30, 2020	As at December 31, 2019
Balance, beginning of period	4,132,122	4,089,833
Expenditures on property and equipment	277,497	-
Disposal of property and equipment (note 4)	(92,398)	-
Transfers from exploration and evaluation (note 5)	-	155,466
Change in estimate of decommissioning liabilities (note 8)	(11,965)	57,819
Foreign currency translation	177,842	(170,995)
BALANCE, END OF PERIOD	4,483,098	4,132,122
ACCUMULATED DEPLETION		
Balance, beginning of period	(2,127,553)	(2,014,512)
Depletion	(54,762)	(188,537)
Impairment expense (note 7)	(216,220)	-
Foreign currency translation	(78,607)	75,496
BALANCE, END OF PERIOD	(2,477,142)	(2,127,553)
NET CARRYING AMOUNT, END OF PERIOD	2,005,957	2,004,570

At June 30, 2020, future development costs of \$1,483,817 (December 31, 2019 - \$1,424,524) are included in costs subject to depletion. The Company's Canadian petroleum and natural gas assets continued to be shut-in during the six months ended June 30, 2020 and continue to have a \$nil value.

Corporate assets

COST	As at June 30, 2020	As at December 31, 2019
Balance, beginning of period	20,385	20,385
BALANCE, END OF PERIOD	20,385	20,385
ACCUMULATED DEPRECIATION		
Balance, beginning of period	(19,259)	(18,858)
Depreciation	(138)	(401)
BALANCE, END OF PERIOD	(19,397)	(19,259)
NET CARRYING AMOUNT, END OF PERIOD	988	1,126

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

7 Impairment

For the three months ended March 31, 2020 and the year ended December 31, 2019, the continued depressed commodity prices experienced throughout 2019 and into 2020 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 March 31, 2020 and December 31, 2019 was 15% applied to proven reserves. The Company did not include any recoverable amount for its probable reserves. The FVLCD estimates are categorized as level 2 according to the IFRS 13 fair value hierarchy. Based on the assessment at March 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 \$213,020 was recorded in the statement of income (loss) and comprehensive income (loss). At December 31, 2019, the recoverable amount of the Company's Ohio, USA CGU exceeded its carrying value and accordingly, there was no impairment recognized. During the three months ended June 30, 2020, there were no indicators of additional impairment.

The amount of exploration and evaluation impairment recorded as at December 31, 2019 of \$2,777,427 was determined based on the same impairment methodology as was applied to property and equipment (note 5). The test was applied to the specific assets included in the amount of E&E that was to be transferred to PP&E.

During the six months ended June 30, 2020, there were no additions to the Company's oil and natural gas assets in Alder Flats, which continued to be held at a \$nil value.

Forecast future prices used in the impairment evaluation as at March 31, 2020 reflect benchmark prices adjusted for basis differentials to determine local reference prices, transportation costs and tariffs, heat content and quality as follows:

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

	WTI Crude Oil (\$US/bbl)	FX Rate
2020	34.20	0.73
2021	41.00	0.73
2022	47.03	0.74
2023	50.96	0.74
2024	54.72	0.75

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

8 Decommissioning liabilities

The Company 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, 2018, the Company completed the abandonment of substantially all of its Canadian petroleum and natural gas assets. Reclamation of these assets has not yet occurred. The Company recorded an abandonment recovery of \$133 (June 30, 2019 - \$4,829) as the estimated capitalized abandonment costs were previously impaired and is included in the “change in estimates” line item below.

	As at June 30, 2020	As at December 31, 2019
Balance, beginning of period	445,594	389,000
Liabilities incurred	23,349	-
Liabilities disposed (note 4)	(43,657)	-
Change in estimate	8,477	54,579
Accretion expense	3,896	9,528
Foreign currency translation	10,399	(7,513)
BALANCE, END OF PERIOD	448,058	445,594

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

9 Secured debentures

On June 28, 2013, the Company closed a secured debenture (the “Debenture”) for gross proceeds of \$750,000. The Debenture 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 commencing on December 31, 2014. Pursuant to the original Debenture agreement (the “Original Agreement”), the Debenture matured on January 31, 2016. However, on June 19, 2015, the terms of the Original Agreement were revised to extend the maturity date until December 31, 2018. The Debenture matured on December 31, 2018. Pursuant to the Debenture, the Company issued to the Debenture holder 2,666,667 share purchase warrants.

On June 19, 2015, the Company closed an additional secured debenture (the “Debenture B”) for gross proceeds of \$500,000. The Debenture B 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 commencing on December 31, 2015. Debenture B matured on December 31, 2018.

Pursuant to Debenture B, the Company issued to the Debenture B holder 1,777,778 share purchase warrants. Each warrant is exercisable into one common share of the Company at a price of \$0.25 per common share until the expiry date of December 31, 2018. The entire 1,777,778 warrants expired on December 31, 2018.

On January 29, 2019, the Company closed a private placement of a non-convertible secured debenture (“Debenture C”) to replace the Debenture and Debenture B. The non-convertible Debenture C was issued for \$1,250,000, along with the issuance of 1,800,000 share purchase warrants of the Company. Each whole warrant entitles the holder thereof to purchase one common share of the Company for \$0.24 per share if Debenture C is paid in full by April 30, 2019 and at \$0.22 per share thereafter, expiring on December 31, 2019. Debenture C bore an interest rate of 12% per annum and was set to mature on December 31, 2019. The interest payments were due and payable semi-annually on June 30, 2019 and on December 31, 2019, the maturity date of Debenture C. The Company recorded an interest expense of \$74,384 as at June 30, 2019, which was paid in full. The terms of Debenture C are the same as the Debenture and Debenture B. All other terms and conditions of Debenture C remained unchanged.

On June 28, 2019, the Company closed a private placement of a non-convertible secured debenture (“Debenture D”) to replace the Debenture C. The non-convertible Debenture D was issued for \$1,250,000, along with the issuance of 1,800,000 share purchase warrants of the Company. Each whole warrant entitles the holder thereof to purchase one common share of the Company for \$0.10 per share, expiring on December 31, 2020. The Debenture C warrants were cancelled unexercised upon issuance of the Debenture D warrants. Debenture D bears an interest rate of 12% per annum and matures on December 31, 2020. The interest payments are due and payable semi-annually beginning

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

December 31, 2019. All other terms and conditions of Debenture D are consistent with Debenture C. The Company recorded an interest expense of \$75,000 during the six months ended June 30, 2020, which was paid to the Debenture holder on June 30, 2020.

The Company may have, at any time, repaid the Debenture in full and any accrued and unpaid interest without notice or penalty. If the Company is in default of the requirements included in the Debenture D agreement, the Debenture D holder may demand repayment of the Debenture D or accelerate the date for payment. Security for the Debenture D includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

The Company valued the warrant feature of the Debenture D using the residual method (the "Residual Method"). Using this method, the fair value of the debt component was calculated using an estimated market rate for similar debt without warrants or a conversion feature. The liability component was \$1,217,196 and the equity component was \$32,804.

	Secured debentures
Balance, December 31, 2018	1,250,000
Expiry of Debenture and Debenture B	(1,250,000)
Issuance of Debenture C	1,227,400
Cancellation of Debenture C	(1,227,400)
Issuance of Debenture D	1,217,196
Accretion of Debenture D	10,204
Balance, December 31, 2019	1,227,400
Accretion of Debenture D	10,918
Balance, June 30, 2020	1,238,318

On July 1, 2020, the Debenture maturity date was 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.

10 Government loan

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

Marksman Energy Inc.

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11 Share capital

a) Authorized

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

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

b) Issued

	Number	Amount
Balance, December 31, 2018	96,736,643	18,679,181
Shares issued pursuant to private placement (i)	3,880,000	254,174
Shares issued pursuant to private placement (ii)	7,180,000	231,215
Shares issued pursuant to private placement (iii)	4,494,000	86,984
Exercise of stock options (note 9(d))	35,000	5,950
Reallocation of stock option fair value on exercise	-	4,639
Exercise of warrants (note 9(e))	800,000	84,000
Reallocation of warrant fair value on exercise (note 9(e))	-	34,016
Exercise of broker warrants	111,947	16,792
Share issue costs (i)(ii)(iii)	-	(22,640)
Balance, December 31, 2019	113,237,590	19,374,311
Shares issued pursuant to private placement (iv)	3,880,280	140,488
Share issue costs (iv)	-	(6,255)
Balance, June 30, 2020	117,117,870	19,508,544

- i) On February 27 and March 28, 2019, the Company closed a private placement issuing a total of 3,880,000 units ("Unit A") for aggregate proceeds of \$388,000. Each Unit A consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.20 per common share for a period of 24 months from issuance, which was valued at \$133,826 (note 11(e)(i)). In connection with the private placement, the Company incurred cash share issue costs of \$7,600 and issued 56,000 broker warrants valued at \$3,302. Each broker warrant entitling the holder thereof to purchase one common share of the Company at a price of \$0.10 per common share for a period of 12 months from issuance (note 11(f)). Share issue costs of \$7,225 were allocated to share capital and \$3,677 were allocated to warrants.
- ii) On June 28, 2019 and August 15, 2019, the Company closed a private placement issuing a total of 7,180,000 units ("Unit B") for aggregate proceeds of \$359,000. Each Unit B consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.10 per common share for a period of 24 months from issuance, which was valued at \$127,785 (note 11(e)(ii)). In connection with the private placement, the Company

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

incurred cash share issue costs of \$17,821. Share issue costs of \$11,941 were allocated to share capital and \$5,880 were allocated to warrants.

- iii) On November 22, 2019 and December 13, 2019, the Company closed a private placement issuing a total of 4,494,000 units ("Unit C") for aggregate proceeds of \$224,700. 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 \$0.10 per common share for a period of 24 months from issuance, which was valued at \$137,716 (note 11(e)(iii)). In connection with the private placement, the Company incurred cash share issue costs of \$8,797, and issued 4,000 broker warrants valued at \$70. 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 11(f)). Share issue costs of \$3,405 were allocated to share capital and \$5,392 were allocated to warrants.
- iv) On March 20, 2020, the Company closed a private placement issuing a total of 3,880,280 units ("Unit D") for aggregate proceeds of \$194,014. 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 \$0.10 per common share for a period of 24 months from issuance, which was valued at \$53,526 (note 11e)(iv)). 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 11(f)). Share issue costs of \$6,255 were allocated to share capital and \$2,383 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.

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

A summary of the status of the Company's stock option plan and changes during the six months ended June 30, 2020 is as follows:

	As at June 30, 2020		As at December 31, 2019	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Balance, beginning of the period	11,074,000	0.11	9,669,000	0.19
Granted	-	-	4,080,000	0.06
Exercised	-	-	(35,000)	(0.17)
Cancelled	-	-	(200,000)	(0.20)
Expired	(550,000)	(0.15)	(2,440,000)	(0.34)
BALANCE, END OF PERIOD	10,524,000	0.11	11,074,000	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	4,934,000	3.07	0.05	2,781,667	0.06
0.10 - 0.19	2,940,000	3.25	0.12	2,191,667	0.12
0.20 - 0.29	2,650,000	0.21	0.21	2,650,000	0.21

As at June 30, 2020, the Company had 7,623,333 exercisable options and 2,900,667 options granted but not yet vested (December 31, 2019 – 7,363,333 and 3,710,667, respectively). The weighted average exercise price of the exercisable options is \$0.12 (December 31, 2019 - \$0.12).

d) Share-based payments

During the six months ended June 30, 2020, the Company granted nil stock options (December 31, 2019 - 4,080,000), and nil were exercised, 550,000 expired unexercised, and nil were cancelled due to forfeiture (December 31, 2019 – 35,000, 2,440,000, and 200,000 respectively). One third of the stock options vest immediately and the remaining stock options granted vest one third on each of the first and second anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model.

	As at December 31, 2019
Risk-free interest rate	1.68%
Expected life	2.5 years
Expected volatility	147.62%
Fair value per option	\$0.04
Forfeiture rate	0.00%
Dividend yield	-

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

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

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.

e) Warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2018	7,573,623	0.30	792,170	1.07
Warrants issued pursuant to private placement (note 11(b)(i))	1,940,000	0.20	133,826	1.93
Warrants issued pursuant to private placement (note 11(b)(ii))	3,590,000	0.10	127,785	2.00
Warrants issued pursuant to private placement (note 11(b)(iii))	4,494,000	0.10	137,716	
Warrants issued pursuant to Debenture C (note 9)	1,800,000	0.22	22,600	0.75
Warrants cancelled pursuant to Debenture C (note 9)	(1,800,000)	(0.22)	(22,600)	-
Warrants issued pursuant to Debenture D (note 9)	1,800,000	0.10	32,804	1.50
Exercise of warrants	(800,000)	-	(34,016)	-
Expiry of warrants	(4,231,917)	-	(474,704)	-
Expiry of warrant share issue costs	-	-	11,232	-
Share issue costs (note 11(b)(i)(ii)(iii))	-	-	(14,948)	-
Balance, December 31, 2019	14,365,706	0.17	711,865	1.25
Warrants issued pursuant to private placement (note 11(b)(iv))	3,880,280	0.05	53,526	1.97
Share issue costs (note 11(b)(iv))	-	-	(2,383)	-
Expiry of warrants	(1,729,205)	(0.42)	(286,201)	-
Expiry of warrant share issue costs	-	-	5,534	-
Balance, June 30, 2020	16,516,781	0.13	482,341	1.13

- (i) As part of the units issued in the private placement that closed on February 27, 2019 and March 28, 2019 (note 11(b)(i)), subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 for a period of 24 months from the date of closing. A value of \$133,826 (\$0.07 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placement, share issue costs totaling \$3,677 were allocated to warrants (note 11(b)(i)).
- (ii) As part of the units issued in the private placement that closed on June 28, 2019 and August 15, 2019 (note 11(b)(ii)), subscribers received one half of one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.10 for a period of 24 months from the date of closing. A value of \$127,785 (\$0.04 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placement, share issue costs totaling \$5,880 were allocated to warrants (note 11(b)(ii)).
- (iii) As part of the units issued in the private placement that closed on November 22, 2019 and December 13, 2019 (note 11(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

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price of \$0.10 for a period of 24 months from the date of closing. A value of \$137,716 (\$0.03 per warrant) has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placement, share issue costs totaling \$5,392 were allocated to warrants (note 11(b)(iii)).

- (iv) As part of the units issued in the private placement that closed on March 20, 2020 (note 11(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 \$0.10 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 based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. In connection with the private placement, share issue costs totaling \$2,383 were allocated to warrants (note 11(b)(iv)).

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 June 30, 2020	As at December 31, 2019
Risk-free interest rate	0.61%	1.60%
Expected life	2.00 years	2.00 years
Expected volatility	138.52%	151.19%
Fair value per warrant	\$0.01	\$0.04

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2018	133,547	0.15	18,410	0.06
Broker warrants exercised	(111,947)	0.15	(16,132)	-
Broker warrants issued pursuant to private placement (note 11(b)(i)(iii))	60,000	0.10	3,372	0.23
Broker warrants expired	(21,600)	0.18	(2,278)	-
Balance, December 31, 2019	60,000	0.10	3,372	0.23
Broker warrants issued pursuant to private placement (note 11(b)(iv))	32,000	0.05	362	0.97
Broker warrants expired	(56,000)	(0.10)	(3,302)	-
Balance, June 30, 2020	36,000	0.05	432	0.94

- (i) As part of the private placement that closed on February 27, 2019 and March 28, 2019, the Company issued 56,000 (note 11(b)(i)) broker warrants to those who facilitated the private placements. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.10 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$3,302 and recorded as share issue costs. These warrants expired unexercised on February 27, 2020 and March 28, 2020 respectively.

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(ii) As part of the private placement that closed on November 22, 2019 and December 13, 2019, the Company issued 4,000 (note 11(b)(iii)) broker warrants to those who facilitated the private placements. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.05 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$70 and recorded as share issue costs.

(iii) As part of the private placement that closed on March 20, 2020, the Company issued 32,000 (note 11(b)(iv)) broker warrants to those who facilitated the private placements. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.05 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.

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 June 30, 2020	As at December 31, 2019
Risk-free interest rate	0.61%	1.77%
Expected life	1 year	1 year
Expected volatility	135.53%	143.53%
Fair value per broker warrant	\$0.01	\$0.06

g) Contributed surplus

	As at June 30, 2020	As at December 31, 2019
Balance, beginning of the period	6,021,991	5,295,078
Share-based payments (note 11(d))	65,180	256,080
Capitalized share-based payments (note 11(d))	-	8,628
Expiry of warrants (note 11(e))	286,201	474,704
Expiry of warrant share issue costs (note 11(e))	(5,534)	(11,232)
Broker warrants issued (note 11(f))	362	3,372
Exercise of stock options (note 11(c))	-	(4,639)
BALANCE, END OF PERIOD	6,368,200	6,021,991

h) Per share data

Basic loss per share is calculated based on the weighted average number of shares outstanding during the year. All warrants, broker warrants and stock options have been excluded from the calculation of diluted shares outstanding as they would be anti-dilutive due to the loss position of the Company.

Marksman Energy Inc.

Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

12 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) 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 Marksman Energy USA, Inc. of which \$nil (June 30, 2019 - \$nil) were capitalized as E&E costs (note 5).
- b) 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:

- c) 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 Marksman Energy USA, Inc. of which \$nil (June 30, 2019 - \$4,561) were capitalized as E&E costs (note 5).
- d) 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.
- e) As at 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.

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Notes to the Consolidated Financial Statements For the Three and Six Months Ended June 30, 2020

13 Financial risk management

(a) Fair values:

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

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

(b) Credit risk:

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

As at 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

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being incurred or revoke a non-operating working interest owners take-in-kind rights pursuant to joint operating agreement provisions. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at June 30, 2020 and December 31, 2019, excluding any impaired accounts, are as follows:

	As at June 30, 2020	As at December 31, 2019
Days outstanding		
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.

(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 June 30, 2020, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of \$594,763 (December 31, 2019 - \$559,673), which are all due over the next twelve months, and the secured debentures balance of \$1,238,318. Subsequent to June 30, 2020, the maturity date of the secured debentures have been extended from December 31, 2020 to December 31, 2022 (note 9). The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities.

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

(d) Market risk:

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

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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 six months ended June 30, 2020 or the year ended December 31, 2019. A 20% change in price per bbl. in commodity process would impact petroleum and natural gas sales by approximately \$21,600 (December 31, 2019 - \$94,000).

(ii) Foreign currency risk:

Foreign currency exchange rate risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company regularly converts Canadian currency into United States currency to provide funds for its Ohio based projects. The Company currently sells oil or natural gas in foreign currencies and the underlying market prices in Canada for oil and natural gas fluctuate with changes in the exchange rate between the Canadian and the United States dollar, thus exposing the Company to foreign currency exchange risk. A hypothetical change of 10% to the foreign exchange rate between the US dollar and the Canadian dollar applied to the average level of US denominated cash during the year would not have a material impact on the Company's loss.

As at 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

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(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 9).

The Company has no interest rate swaps or financial contracts in place as at or during the six months ended June 30, 2020.

14 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 June 30, 2020, included in deposits and prepaid expenses is an amount of \$41,529 on deposit with the AER associated with the Company's operated wells in Alberta (December 31, 2019 - \$41,243). 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, Marksman 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 (December 31, 2019 - \$97,848) related to unpaid surface leases on properties that were sold by Marksman to a third-party company in August of 2010. Marksman 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 and did make a partial payment to Service Alberta in November 2018.

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 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

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the statement of income (loss) and comprehensive income (loss). The Company will continue to review its options and continue discussions with SRB regarding an appeal of these rulings.

Marksman 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. Marksman'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.

15 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 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

16 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 June 30, 2020, the working capital ratio was 0.17:1 (December 31, 2019 – 0.11:1) (note 1). The Board of Directors has not established quantitative return on capital criteria for

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management, but rather promotes conservative capital management. The Company is not subject to any externally imposed capital requirements.

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At June 30, 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, with a potential for renegotiation of the maturity date of the Debenture. 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.

17 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.

18 Subsequent events

On July 17, 2020 and July 27, 2020, the Company 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.