**TSX Venture – MAH** | **Report for the year ended**
**New York OTCQB Venture Marketplace – MKSEF** | **December 31, 2014**

# 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 year ended December 31, 2014 and was prepared with information available up to April 29, 2015 and should be read in conjunction with consolidated financial statements of Marksmen Energy Inc.'s consolidated audited financial statements for the year ended, December 31, 2014. All values in this MD&A are denominated in Canadian currency ("CAD") unless specifically notated as USA currency ("USD"). Certain information regarding Marksmen contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

### Basis of Presentation

The financial data presented below has been prepared in accordance with International Financial Reporting Standards.

### Application of Accounting Estimates

The significant accounting policies used by Marksmen are disclosed in Note 3 of the audited financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

## Non-IFRS

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

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

"**Operating netback**" - Operating netbacks are calculated by deducting royalties and operating costs, including transportation costs, from revenues.

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

## Barrel of Oil Equivalent

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

## Forward-Looking Statements

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

## Introduction

The primary business of Marksmen Energy Inc. ("Marksmen" or the "Company") is the acquisition, development, and production of crude oil from properties located in Ohio, USA. Three years ago Marksmen made a strategic corporate decision to exploit the largely untapped shallow, light oil resources in Central and Western Ohio, U.S.A., which management believes offers superior economics compared to other parts of North America. To achieve this goal, Marksmen has created a wholly owned subsidiary, Marksmen Energy USA, Inc. and secured the expertise of a technical team in Columbus, Ohio.

Marksmen has entered into a joint venture agreement with an Ohio based operator, Houghton Investments, LLC. ("Houghton"), that includes an Area of Mutual Interest (AMI) of approximately fifty square miles. Marksmen completed a five square mile 3D seismic program in the first quarter of 2014. A multi-well drilling program began on April 30, 2014 and four wells were drilled in the second quarter, and three in the third quarter of 2014.

In April of 2015 the Company has begun a seismic program jointly with an arm's length third party corporation with completion scheduled in May, 2015. This will increase our 3D seismic lands from five square miles to approximately seven square miles.

The Company's water injection facility is currently under construction and is planned for completion in mid-May of 2015. This is an important step in completing the optimization of each well.

Marksmen has applied to the state of Ohio to become an approved oil and gas operator. This will give the Company the flexibility needed to ensure all wells are operated and optimized in an efficient manner.

Marksmen is optimistic that the five successful wells including one water injection well and the optimization program currently underway coupled with on-going land acquisition, seismic and additional drilling plans will significantly impact the future of the Company.

## Selected Annual Information

Certain financial and operational information from the last three fiscal years is presented below.

| Year Ended | **12 Months Ended Dec 31, 2014** | 12 Months Ended Dec 31, 2013 | 12 Months Ended Dec 31, 2012 |
|---|---|---|---|
| Production (boe) | **5,277** | - | - |
| Petroleum and Natural Gas Revenue | **$ 509,680** | - | - |
| Total loss and comprehensive loss | **$ (883,982)** | $ (935,051) | $ (1,606,416) |
| Per Share - Basic | **$ (0.02)** | $ (0.03) | $ (0.05) |
| Funds from Operations | **$ (550,956)** | $ (717,373) | $ (1,000,158) |
| Per Share - Basic | **$ (0.01)** | $ (0.02) | $ (0.03) |
| Exploration and Evaluation Assets - Ohio | **$ 924,800** | $ 10,033 | $ 33,532 |
| Investment in property and equipment | **$ 1,869,084** | $ 230,248 | $ - |
| Total Assets | **$ 3,209,460** | $ 1,103,495 | $ 443,301 |
| Total Liabilities | **$ 1,495,408** | $ 1,838,062 | $ 786,745 |
| Total (deficit) Equity | **$ 1,714,052** | $ (734,567) | $ (343,444) |
| Shares Outstanding - Basic | **55,455,718** | 36,009,132 | 32,398,365 |
| Shares Outstanding - Weighted Average | **48,586,878** | 33,954,477 | 27,435,327 |

The information presented above will be discussed further in various sections of this MD&A.

## Quarterly Financial Information

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

| Quarter | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 |
|---|---|---|---|---|---|---|---|---|
| Production - Barrels of Oil | **1,735** | 2,764 | 778 | - | - | - | - | - |
| Revenue - Oil (net of Royalties) | **$182,926** | $252,101 | $74,653 | $0 | $0 | $0 | $0 | $0 |
| Net Income (Loss) | **($249,568)** | ($95,492) | ($292,770) | ($246,152) | ($321,135) | ($260,441) | ($160,456) | ($193,019) |
| Per Share - Basic | **($0.00)** | ($0.00) | ($0.01) | ($0.01) | ($0.01) | ($0.01) | ($0.00) | ($0.01) |
| Funds from Operations | **($228,641)** | $93,663 | ($285,944) | ($130,034) | ($169,941) | ($207,915) | ($154,910) | ($184,607) |
| Per Share - Basic | **($0.00)** | $0.00 | ($0.01) | ($0.00) | ($0.00) | ($0.01) | ($0.00) | ($0.01) |
| Shares Issued and Outstanding | **55,455,718** | 55,123,093 | 52,456,785 | 42,067,632 | 36,009,132 | 34,450,132 | 33,706,085 | 32,398,365 |
| Weighted Average Shares | **48,586,878** | 54,096,506 | 47,710,852 | 37,091,738 | 33,954,477 | 34,450,132 | 33,706,085 | 32,398,634 |

## Operational Highlights – Ohio

| **Period Ended** | **Year Ended Dec. 31, 2014 $USD** | | **Year Ended Dec. 31, 2014 $CAD** | | Year Ended Dec. 31, 2013 |
|---|---|---|---|---|---|
| **Production - Barrels of Oil** | | **5,277** | | **5,277** | - |
| Total Well Days on Production | | **251** | | **251** | - |
| Production Per Well Day - BOE | | **21** | | **21** | - |
| **Well Status** | | | | | |
| Wells Drilled in 2014 (Gross) | | **7** | | **7** | - |
| Wells Drilled in 2014 (Net to Marksmen) | | **6** | | **6** | - |
| Producing wells at year end | | **3** | | **3** | - |
| Wells to be tied in | | **1** | | **1** | - |
| Waster disposal Injection well to be tied in | | **1** | | **1** | - |
| Wells to be optimized | | **4** | | **4** | - |
| Revenue - Oil | **$** | **461,416** | **$** | **509,680** | - |
| Royalties | $ | (57,706) | $ | (64,936) | - |
| **Gross Operating Income** | **$** | **403,710** | **$** | **444,744** | - |
| Operating Costs - Water Disposal | $ | (51,463) | $ | (56,846) | - |
| Operating Costs - Other | $ | (26,994) | $ | (29,818) | - |
| **Operating Costs - Ohio** | **$** | **(78,457)** | **$** | **(86,664)** | - |
| **Net Operating Income** | | **325,253** | | **358,080** | - |

**Production –** Marksmen participated in the drilling of seven gross wells in 2014 or the equivalent of six net wells. Six of the wells were drilled in Pickaway County, Ohio, USA on lands delineated by the Company's 3D seismic program resulting in four oil wells and one water disposal well. One well was drilled and abandoned in Morrow County, on lands delineated by seismic information provided by our joint venture partner.

The total well-days on production in 2014 were approximately 251. All the wells are in various stages of technical and operational optimization. The important optimization step is the tie-in of all wells to the Company's water disposal facility, currently under construction and scheduled for completion in May of 2015.

There is no oil or natural gas production in Alberta at Alder Flats. All wells in Alberta have been shut-in awaiting abandonment and reclamation.

**Oil and Gas Revenue -** Oil revenue for the year ended December 31, 2014 was $509,680 compared to $nil revenue for the year 2013. Revenue is paid directly to our joint venture partner by the oil marketing company. The payment is based on West Texas Intermediate oil ("WTI") prices.

**Royalties -** royalties are paid directly by the oil marketing company at 12.5% of revenue to the land owners of record. There are no royalties paid to the state of Ohio but rather an oil severance tax $0.20 per barrel. Total royalties paid in 2014 were $64,936 compared to $Nil in 2013.

**Operating Expenses –** operating expenses in Ohio totaled $86,664 for the year ended December 31, 2014 compared to $Nil in the same period of 2013. Additionally there was $8,457 paid in 2014 for property taxes, and other minor operating costs associated with the shut-in wells in Alberta compared to $8,586 for the same period in 2013.

**Net Back - Ohio -** The following chart summarizes the net back for oil sold in the year ended December 31, 2014 in both $USD and $CAD. There were no oil or natural gas sales 2013.

| **Period Ended** | **Year Ended Dec. 31, 2014 $USD** | **Year Ended Dec. 31, 2014 $CAD** | Year Ended Dec. 31, 2013 |
|---|---|---|---|
| **Total Production - Barrels of Oil** | **5,277** | **5,277** | - |
| Crude Oil Price /boe | $87.44 | $96.59 | - |
| Revenue | **$461,416** | **$509,680** | - |
| Royalties | ($58,787) | ($64,936) | - |
| Operating Costs - Water Disposal | ($51,463) | ($56,846) | |
| Operating Costs - Other | ($26,994) | ($29,818) | - |
| Total Royalties and Operating Costs | ($137,244) | ($151,600) | - |
| **Operating net back ( $ CAD)** | **$324,172** | **$358,080** | - |
| Operating Costs /boe - Water Disposal | ($9.75) | ($10.77) | - |
| Operating Costs /boe - Other | ($5.12) | ($5.65) | - |
| **Total Operating Costs** | **($14.87)** | **($16.42)** | |
| **Operating Netback / boe** | **$61.43** | **$67.86** | - |

Operating costs include $56,846 in water disposal charges for well water processed at a third party disposal well. This equates to $10.77 per boe. The water disposal facility, scheduled for completion in May 2015, will allow Marksmen to process the Company's produced water with no disposal charges. There will be operating costs associated with the operation of the disposal facility.

The netback per boe, including water disposal costs is $67.86 per boe.

## General and Administrative Expenses

The Company has divided its administrative expenses into six categories, namely: Consulting fees, Professional fees, Investor Relations, Filing and Listing Costs, Ohio business development, and general and administrative costs as discussed below.

**Consulting fees** - are related to fees from senior management of the Company for the management of the oil and gas assets in Ohio and investor relations. Most travel costs are related to Ohio operations and have been charged directly to Ohio administrative expenses.

| **Marksmen Energy Inc.**<br>**Consulting Fees** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| Management Consulting | **$ 265,046** | $ 147,199 |
| Consulting Services | **$ 25,500** | $ 51,419 |
| Travel and Business Expense | **$ 853** | $ 6,312 |
| | **$ 291,399** | **$ 204,930** |

**Professional fees –** legal fees increased in year 2014 compared to 2013 due to private placements and warrant exercises as well as fees associated with listing on the OTCQB Venture Marketplace in the USA. Engineering fees in 2014 relate to the preparation of the reserves evaluation report of the oil and gas properties in both Ohio and Alberta. Audit and accounting fees have increased due to increased fees and tax preparation associated with the Company's wholly owned subsidiary, Marksmen Energy USA, Inc.

| **Marksmen Energy Inc.**<br>**Professional Fees** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| Legal | **$ 98,993** | $ 28,952 |
| Engineering Consulting (Reserves) | **$ 46,462** | $ - |
| Audit Fees | **$ 47,118** | $ 34,247 |
| Accounting fees | **$ 39,358** | $ 30,858 |
| | **$ 231,931** | **$ 94,057** |

**Investor Relations and Conferences –** In order to raise capital for the USA based opportunities in Ohio management has attended a number of conferences and numerous meetings with many contacts in the investor community in Canada and the USA.

| **Marksmen Energy Inc.**<br>**Investor Relations and Conferences** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| Investment Conferences | **$ 15,042** | $ 24,163 |
| Travel and Expenses | **$ 66,069** | $ 87,458 |
| Advertising and Promotion | **$ -** | $ 9,500 |
| | **$ 81,111** | **$ 121,121** |

**Filing and Listing Costs –** These costs are directly associated with costs of being a public company in Canada. Additional costs in 2014 are related to the listing of Marksmen on the OTCQB Venture Marketplace in New York. The Company announced on September 30, 2014 that it began trading on the OTCQB under the symbol MKSEF.

| **Marksmen Energy Inc.**<br>**Filing and and Listing Costs** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| Filing and registration fees | **$ 18,764** | $ 18,275 |
| OTCQB filing fees | **$ 14,851** | $ - |
| News Releases | **$ 3,390** | $ 3,365 |
| Shareholder and trust services | **$ 11,611** | $ 7,087 |
| Stock exchange fees | **$ 17,680** | $ 11,343 |
| | **$ 66,296** | **$ 40,070** |

**Ohio Administrative Expenses –** Marksmen's business activities in 2014 have been focused on developing its oil and gas operations in Ohio. General and administrative costs decreased in 2014 as management costs associated with seismic, drilling, completions and equipping of wells were capitalized. Management travel increased due to additional business activity.

| **Marksmen Energy Inc.**<br>**Ohio Aministrative Expenses** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| General and administrative | $ 37,081 | $ 70,153 |
| Travel and Expenses | $ 47,309 | $ 12,596 |
| | **$ 84,390** | **$ 82,749** |

**General and Administrative Expenses –** The normal day to day costs of running the Company are covered in this category and are related to salaries, rent, office costs, travel and other costs. The expenditures in the year ended December 31, 2014 were $172,051 compared to $134,732 in the same period of 2013.

| **Marksmen Energy Inc.**<br>**General and Administrative** | **Year Ended**<br>**Dec. 31, 2014** | Year Ended<br>Dec. 31, 2013 |
|---|---|---|
| Salaries and Wages | **$ 116,883** | $ 53,081 |
| Office Rent and Parking | **$ 5,568** | $ 35,361 |
| Bank Charges and Interest Expense | **$ 1,194** | $ 321 |
| Software and Computer Suport | **$ 19,382** | $ 12,809 |
| Printing, telephone and stationay | **$ 11,157** | $ 12,289 |
| City Business Tax | **$ 1,399** | $ 2,244 |
| Insurance | **$ 16,467** | $ 18,627 |
| | **$ 172,051** | **$ 134,732** |

## Selected Other Expenses

**Interest Expense –** during the year ended December 31, 2014 the Company incurred $90,000 of interest related to the Secured Debenture of June 28, 2013. The Company made its payments as per the terms of the agreement in June 2014 and December 31, 2014.

**Bad Debt (Recovery) Expense –** at December 31, 2014, the Company has an allowance for $108,408 (December 31, 2013 - $43,129) of trade and other receivables that were deemed to be uncollectible. During the year ended December 31, 2014, certain creditors forgave $125,680 of liabilities (December 31, 2013 - $nil) including $68,276 for old amounts of accounts payable and $57,404 related to a disputed joint interest billing.

**Foreign Exchange –** At December 31, 2014 the Company had a foreign exchange gain of $116,570 related to Marksmen Energy USA, Inc.'s financial records being denominated in $USD.

## Financial Position – Highlights

| Period Ended | Year Ended Dec. 31,2014 | Year Ended Dec. 31, 2013 | Variance |
|---|---|---|---|
| **Assets** | | | |
| Current Assets | **$ 415,576** | $ 868,149 | $ (452,573) |
| Exploration and Evaluation Assets | **$ 924,800** | $ 230,248 | $ 694,552 |
| Property and Equipment | **$ 1,869,084** | $ 5,098 | $ 1,863,986 |
| | **$ 3,209,460** | $ 1,103,495 | $ 2,105,965 |
| **Liabilities** | | | |
| Accounts Payable and Accruals | **$ 288,368** | $ 758,321 | $ (469,953) |
| Decommissioning Liabiliites | **$ 472,270** | $ 358,241 | $ 114,029 |
| Secured Debenture | **$ 734,770** | $ 721,500 | $ 13,270 |
| | **$ 1,495,408** | $ 1,838,062 | $ (342,654) |
| **Equity** | | | |
| Share Capital and Contributed Surplus | **$ 19,433,491** | $ 16,045,575 | $ 3,387,916 |
| Deficit | **$ (17,719,439)** | $ (16,780,142) | $ (939,297) |
| | **$ 1,714,052** | **$ (734,567)** | **$ 2,448,619** |
| **Liabilities and Equity (Deficit)** | **$ 3,209,460** | **$ 1,103,495** | **$ 2,105,965** |

**Assets –** increased by $2,105,965 in the year ended December 31, 2014 compared to the same period in 2013 primarily due to capital investment in seismic, and the drilling, completion and equipping of wells in Ohio.

**LIabilities –** decreased by $342,654 in the year ended December 31, 2014 compared to the same period in 2013. The Company has worked diligently at improving this position by bringing payables more current and in the successful settlement of a claim by a third party joint venture operator.

**Equity –** in the year ended December 31, 2014 the Company is in a positive equity position of $1,714,052 compared to a deficit of ($734,567) at year end 2013, an improvement of $2,448,619. This is primarily due to an increase in share capital from the issuance of shares in private placements and the exercise of warrants by shareholders.

## Capital Expenditures

| **Capital Expenditures<br>Oil and Gas Assets** | **Year End<br>Dec. 31, 2014** | **Year End<br>Dec. 31, 2013** |
|---|---|---|
| **Exploration and Evaluation (E&E)** | | |
| Additions | **$ 983,604** | $ 230,248 |
| Transfer to PP&E | **$ (289,052)** | $ - |
| **Total E&E Additions** | **$ 694,552** | **$ 230,248** |
| **Property Plant and Equipment (PP&E)** | | |
| Additions (Drilling, Completions and Equipping) | **$ 1,597,365** | $ 12,032 |
| **Transfer from E&E** | **$ 289,052** | $ - |
| Total PP&E Additions | **$ 1,886,417** | **$ 12,032** |
| **Combined E&E and PP&E Additions** | **$ 2,580,969** | **$ 242,280** |

In the year ended December 31, 2014 Marksmen had net additions of both E&E and PP&E assets of $2,580,969 related to seismic, drilling, completions and equipping of the Company's Ohio oil and gas assets. In the same period of 2013 the total additions were $242,280 related to land acquisition and surveying for seismic.

## Oil and Gas Reserves

Marksmen's oil and gas reserves have been evaluated as at December 31, 2014 in a report prepared by McDaniel and Associates Consultants Ltd. Group Ltd. ("McDaniel") in accordance with National Instrument 51-101 ("NI 51-101"). The results will be posted on Sedar under the following referenced documents:

NI-5101F1 Statement of Reserve Data and Other Oil and Gas Information
NI-5101F2 Report on Reserves Data by an Independent Qualified Reserves Evaluator
NI-5101F3 Report of Management and Directors on Oil and Gas Disclosure

## Equity Investment in MAR Oil Company

The Company has suspended business negotiations with MAR Oil Company (MAR), and as at December 31, 2014, no assurance can be given that any agreement with MAR 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. During the year ended December 31, 2012, the Company's share of MAR's 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.

## Impairment loss

During the year ended December 31, 2013, the Company impaired its oil and natural gas assets in its Alder Flats CGU to $nil. The Alder Flats CGU, which at the time was the Company's only oil and natural gas asset, had been shut-in for in excess of two years, which combined with the Company's refocus to its Ohio, USA exploration project, and the continued decline in reserves and commodity prices, resulted in management's assessment that the carrying amount of the CGU was impaired resulting in a $131,934 charge to earnings. During the year ended December 31, 2014, the Company continued to impair its oil and natural gas assets in its Alder Flats CGU to $nil resulting in an impairment charge of $34,828.

## Decommissioning Liabilities

The Company has estimated the net present value of the decommissioning liabilities to be $472,270 as at December 31, 2014 (December 31, 2013 - $358,241), of which $169,008 is current (December 31, 2013 - $113,113). The total undiscounted amount of estimated future cash flows is $490,226 (December 31, 2013 - $372,581). These payments are expected to be made over the next 6 years. The obligations have been calculated using an inflation rate of 2% (December 31, 2013 – 2%) and a discount factor, being the risk-free rate related to the liability, of 1.00% - 1.57% (December 31, 2013 –1.10% - 2.40%).

## Secured Debenture

On June 28, 2013, the Company closed a secured debenture (the "Debenture") for gross proceeds of $750,000. The funds received under the Debenture were used by the Company to conduct the initial 3D Seismic program and to fund the work required to the drilling stage on the Houghton Project in Ohio, USA. The Debenture bears interest of 12% per annum, the first payment was due and paid by the Company on June 28, 2014, and each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2014. As of December 31, 2014, the Company has incurred $135,750 of interest expense (December 31, 2013 - $45,750), of which $90,000 was incurred during the year ended December 31, 2014 (December 31, 2013 - $45,750). The Company made the required interest payment of $135,750 during the year ended December 31, 2014. The Debenture matures on January 31, 2016. The Company may, at any time, repay 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 agreement, the Debenture holder may demand repayment of the Debenture or accelerate the date for payment. Security for the Debenture includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

Pursuant to the Debenture, the Company issued to the Debenture holder 2,666,667 share purchase warrants. Each warrant is exercisable into one common share of the Company at a price of $0.17 per common share until the expiry date of the earlier of two months following payment in full of the Debenture; or June 30, 2017. During the year ended December 31, 2014, 267,000 of the warrants were exercised.

The Company valued the warrant feature of the debenture using 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 $715,519 and the equity component was $34,481, which net of tax is $25,861.

## Share Capital

For a detailed explanation of the transactions that took place in 2014 for common shares, warrants, broker warrants and stock options please refer to Note 11 - Share Capital in Marksmen's Financial Statements for the year ended December 31, 2014. The chart below is a summary of share capital and includes the balances as of April 30, 2015.

| **Marksmen Energy Inc.**<br>**Share Capital** | **Year Ended**<br>**Dec. 31, 2014** | As of<br>Apr. 30, 2015 | Dec 31, 2013 |
|---|---|---|---|
| Common Shares | **55,455,718** | 60,457,685 | 36,009,132 |
| Warrants | **7,955,540** | 10,496,522 | 14,958,728 |
| Broker Warrants | **119,720** | 161,720 | - |
| Stock Options | **5,289,667** | 5,839,667 | 2,913,000 |

## Share-based payment expense

During the year ended December 31, 2014, the Company granted 2,560,000 stock options (December 31, 2013 – 300,000) consistent with the Company's Stock Option Plan. The options granted are exercisable at a weighted average of $0.34 per option (December 31, 2013 - $0.17) and expire 5 years after the grant date (December 31, 2013 – 5 years). 1/3 of the stock options vest immediately and the remaining stock options granted vest 1/3 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.

Compensation expense recognized during the year ended December 31, 2014 was $470,786 (December 31, 2013 - $52,301), of which $286,372 has been recorded in the statement of comprehensive loss (December 31, 2013 - $44,114) and $184,414 has been capitalized as exploration and evaluation assets (December 31, 2013 - $8,187), all of which has been recorded as an offsetting credit to contributed surplus.

### Income Tax

Income tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 25.00% (December 31, 2013 – 25.00%) to income before income taxes as follows. For detailed information regarding income tax and deferred tax please refer to section 12 of the Company's Financial Statements as of December 31, 2014.

### Tax Pools

The Company has estimated tax pools totaling:

| Tax Pools | Year Ended **Dec. 31, 2014** | Year Ended Dec 31, 2013 |
|---|---|---|
| Canadian development expense | **$ 14,308** | $ 14,308 |
| Canadian oil and gas property expense | **$ 476,499** | $ 467,104 |
| Foreign resource expenditure | **$ 2,566,545** | $ 222,061 |
| Undepreciated capital cost | **$ 116,402** | $ 116,402 |
| Share issue costs | **$ 134,300** | $ 114,377 |
| Non-capital loss carry forward | **$ 4,633,561** | $ 4,068,377 |
| Capital loss carry forward | **$ 2,059,000** | $ 2,097,742 |
| **Total** | **$ 10,000,615** | $ 7,100,371 |

### Related party transactions

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

An aggregate of $265,875 (December 31, 2013 - $146,950) in consulting fees were paid to certain directors and officers of the Company and companies controlled by certain directors of the Company and were expensed as general and administrative expenses. Additionally an aggregate of $208,322 (December 31, 2013 - $73,983) in consulting fees and related costs were paid to certain directors and officers of the wholly owned subsidiary, Marksmen Energy USA, Inc. and were capitalized or expensed as general and administrative expenses.

An aggregate of $15,063 (December 31, 2013 - $45,063) is accrued as a liability to officers and directors who resigned from the Company in 2012.

An aggregate of $nil (December 31, 2013 - $2,990) was paid to a director and officer of the Company as prepayment for expenses to be incurred and is included in deposits and prepaid expenses.

Aggregate legal fees of $90,621 (December 31, 2013 - $65,229) were charged by a law firm in which a director of the Company is a partner, of which $77,563 (December 31, 2013 - $30,856) were expensed as general and administrative expenses and $13,058 (December 31, 2013 - $34,373) were charged to share capital as share issue costs.

The Company has trade and other receivables of $90,786 (December 31, 2013 - $88,502) owing from companies where a director is a shareholder.

The Company has recorded an allowance for doubtful accounts of $90,786 (December 31, 2013 - $43,129) owing from private companies in which a director of the company is a shareholder.

As at December 31, 2014, the Company has accounts payable and accrued liabilities totaling $66,129 (December 31, 2013 – $168,398) owing to related parties relating to the above transactions.

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

**Key management compensation**

Key management includes the Company's executive management

| | Year Ended Dec. 31, 2014 | Year Ended Dec. 31, 2013 |
|---|---|---|
| Compensation | $ 343,375 | $ 190,950 |
| Share based payments | $ 148,127 | $ 11,999 |
| **Total** | **$ 491,502** | **$ 202,949** |

A portion of the key management compensation of $265,875 (December 31, 2013 - $146,950) has been paid through consulting fees.

## Off Balance Sheet Arrangements

The Company is not party to any arrangements that would be excluded from the balance sheet.

## Going Concern

At December 31, 2014, the Company had not yet achieved profitable operations, had accumulated a deficit of $17,719,439 since its inception (December 31, 2013 - $16,780,142), working capital deficiency of $41,800 (December 31, 2013 – deficiency of $3,285), negative cash flow from operations of $828,563 (December 31, 2013 - $741,161) and expects to incur further losses in the development of its business. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.

## Commitments

**Alberta Energy Regulator ("AER")** – The 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. Included in deposits and prepaid expenses is an amount of $166,290 on deposit with the Alberta Energy Regulator ("AER") associated with six shut-in wells at Alder Flats, Alberta.

In August 2010 the Company sold fifteen gas properties to a PrivateCo. but contractually remains the licensee of record for these wells and is deemed to be the operator by AER. The Company and PrivateCo were unable to pay a large increase in deposits introduced by AER in March of 2013 that resulted in an abandonment order by AER in June of 2013 requiring the shut-in of all producing wells of PrivateCo.

In February, 2014 the AER, at the urging of small operators, outlined a Licensee Liability Rating (LLR) Program Management Plan (the "Plan") whereby a corporation can undertake appropriate measures over a defined time period through December 2017 to meet their LLR program requirements. In May, 2014 the Company and PrivateCo. were accepted into the Plan, which allows the Company and the PrivateCo. to turn wells back on production, optimize production, transfer wells to other operators, sell properties to other operators that have a positive LLR, abandon wells, and apply for a change in licensing and liability rating status to facilities. The Company in conjunction with PrivateCo. provides monthly updates to AER to indicate progress in meeting the defined asset liability ratio. Since being accepted into the plan the Company and PrivateCo. have been successful in moving its LLR ratio from 0.11 in June of 2014 to 0.42 in December, 2014 and subsequently to 0.79 at the end of March, 2015. This has been accomplished by various initiatives including transferring the operatorship in a well to another company and the de-licensing of a multi-well battery.

**Disputed Joint interest billing -** The Company received a joint interest billing from an unrelated company in the first quarter of 2012 for what they determined to be 13 month adjustments for gathering and processing fees dating back to 2008. The Company's share of the joint interest billing was considered to be $166,174. The Company disputed the joint interest billing from the time it was received but did recognize an amount of $57,404 in accrued liabilities in recognition of a potential liability for this amount. During 2014 a settlement agreement with the unrelated party was received whereby it was determined that the PrivateCo. that purchased the assets in 2010 was responsible for the liability. The PrivateCo. has paid the settlement owing of $39,553 in 2014. Accordingly, the Company has written its accrued liability obligation to $nil at the year ended December 31, 2014.

## Subsequent Events

Subsequent to December 31, 2014, the Company entered into the following transactions:

**Stock Options** - On April 1, 2015, the Company granted 550,000 stock options to directors, officers, employees and consultants of the Company in accordance with the Plan at an exercise price of $0.15 per common share. The stock options vest one-third immediately and one-third on each of the first and second anniversaries of the grant date and expire after five years from the grant date.

**Private Placement -** On March 30, 2015, the Company completed a private placement, issuing 5,001,967 units (the "Units) at $0.15 per Unit for aggregate gross proceeds of $750,295. Each Unit consisted of one common share of the Company and one half of one common share purchase warrant, with each warrant entitling the holder thereof to purchase one common share of the Company for $0.25 per common share for a period of 24 months from issuance. In connection with the private placement, the Company incurred cash commissions of $6,300 and issued 42,000 broker units. Each broker unit entitles the holder thereof to purchase one common share of the Company for $0.15 per common share for a period of 12 months from the date of issuance.

**Water Disposal Facility** - In the first quarter of 2015, Marksmen, through our joint interest partner, is in the process of constructing a water disposal facility at the B-78 #6 well-site. The well has been permitted as an injection well, acidized and completed. The site has been prepared, flow lines from wells are being constructed, the surface equipment and pump have been ordered, and the overall facility is scheduled for completion in the middle of May 2015. This facility will allow Marksmen to process water from all of the Company's wells, thereby significantly reducing our operating costs on each well. The disposal well is a very important step in the on-going optimization of all of Marksmen's wells. Under the terms of an addendum to the operating agreement with Houghton Investments, LLC, Houghton will operate the facility and charge Marksmen for operating costs and Marksmen will become the 100% owner of the facility.

**3D Seismic Program –** Marksmen entered into a seismic acquisition agreement with an arm's length third party, to undertake a joint 3D seismic acquisition program of approximately 4.4 square miles. Marksmen's share will be approximately 43 percent or 1.88 square miles bringing our total of 3D seismic to 6.88 square miles. As per the agreement, the third party has advanced to Marksmen their portion of the acquisition costs. In turn, Marksmen contracted with Bay Geophysical to complete the 3D seismic acquisition program. Survey work commenced on April 22, 2015 and will be followed by seismic acquisition in May. It is anticipated that the seismic work will be completed within three weeks with interpretation of the data to follow shortly thereafter. Marksmen anticipates the new seismic program will add additional drilling targets in the Cambrian Knox formation to those already drilled or outlined in the Company's 2014 Seismic program.

**Operatorship -** Marksmen has applied to the State of Ohio to become an operator. As the operator, Marksmen will have significantly more control over all facets of drilling, completion, tie-in and operating of the Company's wells in a manner that is in the best interest of the Company.

## Outlook

Marksmen has made significant progress in 2014 to becoming a viable energy producing company. There was an initial 3D seismic program completed on five square miles of land, a drilling program consisting of seven wells with a number of additional, viable drill targets that are potential in the near term. Three of the wells are producing and a total of five wells are in various stages of technical and operational optimization.

The water disposal well and related facility, and the overall infrastructure of the Ohio oil and gas operation are currently in the process of being upgraded to handle the need to dispose of produced water. The disposal facility is scheduled to be on-stream in mid-May 2015.

As part of Marksmen's optimization program a well utilizing a Progressive Cavity Pump (PCP) will be brought on full production once the water disposal facility is operational. The PCP pump has proven in similar wells to be better than a conventional pump-jack because of its variable flow rates from very low up to 700 barrels per day. If the PCP pump proves to be more effective than a standard pump jack in the Company's operations then other wells will be equipped with the PCP system.

Marksmen has acquired approximately ten additional square miles of land adjacent to our existing properties and leasing activities are on-going in 2015. The Company is currently undertaking a 3D seismic program in conjunction with a third party which brings our total land position covered by 3D seismic to seven square miles.

The success achieved drilling the first locations, the on-going optimization work, the current land acquisitions; additional 3D seismic currently underway, potentially additional joint venture partners and the drilling of additional wells are expected to have significant positive impact on the future of the Company.

In order to have greater management input into the operation of our oil and gas assets in Ohio, Marksmen has applied to the State of Ohio to become an operator. As the operator, Marksmen will have significantly more control over all facets of drilling, completion, tie-in and operating of the Company's wells in a manner that is in the best interest of the Company.

The Company continues to discuss various joint venture opportunities with a number of companies.

Marksmen has successfully set the ground work in 2014 and is optimistic the optimization program currently underway, on-going land acquisition and seismic and additional drilling plans will significantly impact the future of the Company.

## Other

Additional information relating to the Company is available on SEDAR at www.sedar.com or at info@marksmen.ca. Marksmen is listed on the TSX Venture Exchange under the symbol "MAH" and on the OTCQB Venture Marketplace under the symbol MKSEF.