

# Marksmen Energy Inc.

Consolidated Financial Statements

**For the three and nine month periods ended September 30, 2018 and 2017**

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three and nine month periods ended September 30, 2018 and 2017.

# Marksman Energy Inc.

## Consolidated Statements of Financial Position

As at:

(Canadian \$)	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash	340,017	801,097
Trade and other receivables (note 9)	209,552	526,179
Deposits and prepaid expenses (note 10)	60,909	59,858
Total Current Assets	610,478	1,387,134
Exploration and evaluation (note 3)	3,568,823	1,736,033
Property and equipment (note 4)	2,064,226	2,223,110
<b>TOTAL ASSETS</b>	<b>6,243,527</b>	<b>5,346,277</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	419,032	515,871
Secured debentures (note 6)	1,247,663	1,240,959
Total Current Liabilities	1,666,695	1,756,830
Decommissioning liabilities (note 5)	402,290	357,466
	<b>2,068,985</b>	<b>2,114,296</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7(b))	18,487,418	17,687,906
Warrants (note 7(e))	733,130	510,698
Contributed surplus (note 7(g))	5,094,671	4,854,074
Accumulated other comprehensive income	554,115	424,617
Deficit	(20,694,792)	(20,245,314)
	<b>4,174,542</b>	<b>3,231,981</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>6,243,527</b>	<b>5,346,277</b>

Going concern (note 1)

Commitments (note 10)

Subsequent events (note 12)

Approved by the Board of Directors:

Signed "Donald D. Jones"

Donald D. Jones

Signed "Archibald J. Nesbitt"

Archibald J. Nesbitt

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

# Marksmen Energy Inc.

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

(Canadian \$)	<b>Three months ended</b>		<b>Nine months ended</b>	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>REVENUE</b>				
Petroleum and natural gas sales	309,083	220,011	950,812	906,770
Royalties	(40,147)	(28,881)	(123,964)	(118,467)
	268,936	191,130	826,848	788,303
<b>EXPENSES</b>				
Production and operating expenses	39,515	36,025	75,723	93,756
Depletion and depreciation (note 4)	82,761	72,645	264,698	331,521
General and administrative	135,556	143,928	545,972	414,807
Share-based payments (note 7(d))	47,262	15,696	266,575	56,284
<b>(Loss) income from operations</b>	<b>(36,158)</b>	<b>(77,164)</b>	<b>(326,120)</b>	<b>(108,065)</b>
<b>FINANCE EXPENSE</b>				
Interest expense (note 6)	37,808	37,809	112,192	112,192
Accretion of secured debentures (note 6)	2,336	2,041	6,704	5,855
Accretion of decommissioning liabilities (note 5)	1,586	1,111	4,730	2,531
	(41,730)	(40,961)	(123,626)	(120,578)
<b>OTHER INCOME</b>				
Recovery of abandonment estimates	47	3,254	269	6,153
<b>NET LOSS</b>	<b>(77,841)</b>	<b>(114,871)</b>	<b>(449,477)</b>	<b>(222,490)</b>
<b>Other comprehensive income that may subsequently be transferred to net loss</b>				
Currency translation adjustment	(85,474)	(150,367)	129,498	(291,615)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(163,315)</b>	<b>(265,238)</b>	<b>(319,979)</b>	<b>(514,105)</b>
Basic and diluted loss per share (note 7(h))	(0.00)	(0.00)	(0.00)	(0.01)
Weighted average number of common shares outstanding during the period	92,507,471	82,504,581	91,111,513	80,841,257

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
<b>BALANCE AS AT DECEMBER 31, 2017</b>	17,687,906	510,698	4,854,074	(20,245,314)	424,617	3,269,346
Loss for the period	-	-	-	(449,477)	-	(449,477)
Translation differences on foreign subsidiaries	-	-	-	-	129,498	129,498
Private placement (note 7(b))	478,884	247,382	-	-	-	726,266
Broker warrants (note 7(f))	(1,039)	(536)	1,575	-	-	-
Cash share issue costs (note 7(b))	(9,676)	(4,998)	-	-	-	(14,674)
Exercise of warrants (note 7(e))	217,928	-	-	-	-	217,928
Reallocation of warrant fair value on exercise (note 7(e))	19,416	(19,416)	-	-	-	-
Exercise of stock options (note 7(c))	51,800	-	-	-	-	51,800
Reallocation of stock option fair value on exercise	42,199	-	(42,199)	-	-	-
Share-based payments (note 7(d))	-	-	281,220	-	-	281,220
<b>BALANCE AS AT SEPTEMBER 30, 2018</b>	<b>18,487,418</b>	<b>733,130</b>	<b>5,094,671</b>	<b>(20,694,792)</b>	<b>554,115</b>	<b>4,174,542</b>
<b>BALANCE AS AT DECEMBER 31, 2016</b>	17,070,170	1,151,290	3,663,937	(19,681,409)	690,465	2,894,453
Loss for the period	-	-	-	(114,871)	-	(114,871)
Translation differences on foreign subsidiaries	-	-	-	-	(291,615)	(291,615)
Private placement (note 7(b))	260,024	99,176	-	-	-	359,200
Cash share issue costs (note 7(b))	(7,290)	(2,101)	-	-	-	(9,391)
Expiry of warrants (note 7(e))	-	(1,104,458)	1,104,458	-	-	-
Expiry of warrant share issue costs (note 7(e))	-	66,719	(66,719)	-	-	-
Share-based payments (note 7(d))	-	-	58,979	-	-	58,979
<b>BALANCE AS AT SEPTEMBER 30, 2017</b>	<b>17,322,904</b>	<b>210,626</b>	<b>4,760,654</b>	<b>(19,796,280)</b>	<b>398,850</b>	<b>2,896,755</b>

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

# Marksmen Energy Inc.

## Consolidated Statements of Cash Flows

(Canadian \$)	Nine months ended	
	September 30, 2018	September 30, 2017
<b>CASH (USED IN) PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(449,477)	(222,490)
<b>ITEMS NOT AFFECTING CASH:</b>		
Depletion and depreciation (note 4)	264,698	331,521
Accretion of decommissioning liabilities (note 5)	4,730	2,531
Accretion of secured debentures (note 6)	6,704	5,855
Recovery of abandonment estimates	(269)	(6,153)
Share-based payments (note 7(d))	266,575	56,284
Change in trade and other receivables	316,627	91,244
Change in deposits and prepaid expenses	(1,051)	(66)
Change in accounts payable and accrued liabilities	(43,861)	(33,746)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>364,676</b>	<b>224,980</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on property and equipment (note 4)	-	(25,875)
Expenditures on exploration and evaluation (note 3)	(1,775,978)	(77,835)
Change in non-cash working capital	(52,978)	(22,211)
<b>CASH FLOW USED IN INVESTING ACTIVITIES</b>	<b>(1,828,956)</b>	<b>(125,921)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from private placements, net of cash issue costs (note 7(b))	711,592	349,808
Proceeds from exercise of warrants (note 7(b))	217,928	-
Proceeds from exercise of stock options (note 7(b))	51,800	-
Change in accounts payable and accrued liabilities	-	-
<b>CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>	<b>981,320</b>	<b>349,808</b>
Foreign exchange effect on cash and cash equivalents	21,880	(35,887)
(Decrease) increase in cash	(461,080)	412,980
Cash, beginning of period	801,097	116,806
<b>CASH, END OF PERIOD</b>	<b>340,017</b>	<b>529,786</b>

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

# Marksmen Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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## 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, 333-7<sup>th</sup> Avenue SW, Calgary, Alberta, Canada, T2P 2Z1.

At September 30, 2018, the Company had not yet achieved profitable operations, had accumulated a deficit of \$20,694,792 (December 31, 2017 - \$20,245,314) since its inception, cash flow from operations of \$364,676 (December 31, 2017 – (\$50,573)), a working capital with secured debentures excluded of \$191,446 (December 31, 2017 – working capital \$871,263), or a working capital deficiency of \$1,056,217 (December 31, 2017 – deficiency of \$369,696) when secured debentures are included, 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, renegotiating secured debentures that mature on December 31, 2018, 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 2018 budget and on management’s estimate of expenditures expected to be incurred beyond 2018.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at September 30, 2018, 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.

To achieve its intended development, management is committed to raising additional capital (during the nine months ended September 30, 2018, the Company successfully completed a private placement for gross proceeds of \$726,266 (note 7(b)(iv)), and subsequent to September 30, 2018, closed an additional private placement), renegotiating the secured debentures that matures on December 31, 2018, 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.

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Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these consolidated financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and balance sheet 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, 2017, except as disclosed in Note 3. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2017 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 November 26, 2018, 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 Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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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, income 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 Exploration and evaluation

	As at September 30, 2018	As at December 31, 2017
Balance, beginning of period	1,736,033	1,736,916
Expenditures on exploration and evaluation assets	1,790,623	86,792
Foreign exchange translation	42,167	(87,675)
<b>BALANCE, END OF PERIOD</b>	<b>3,568,823</b>	<b>1,736,033</b>

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at September 30, 2018, the Company has \$3,568,823 in E&E assets (December 31, 2017 - \$1,736,033). The additions represent the acquisition of undeveloped land and seismic activity and drilling within Ohio, USA, and include \$14,645 of capitalized share-based payments and \$51,463 of capitalized consulting payments. Any transfers to property and equipment reflect assets in which technological feasibility and commercial viability have been established. There were no transfers during the nine months ended September 30, 2018 (December 31, 2017 - \$nil). As at September 30, 2018, there were no indicators of impairment of the E&E assets.



# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2018

### 4 Property and equipment

	As at September 30, 2018	As at December 31, 2017
Petroleum and natural gas assets	3,944,573	3,803,559
Corporate assets	20,385	20,385
Property and equipment at cost	3,964,959	3,823,944
Accumulated depletion and depreciation	(1,900,733)	(1,600,834)
<b>PROPERTY AND EQUIPMENT NET CARRYING AMOUNT</b>	<b>2,064,226</b>	<b>2,223,110</b>

#### Petroleum and natural gas assets

	As at September 30, 2018	As at December 31, 2017
<b>COST</b>		
Balance, beginning of period	3,803,559	3,845,142
Additions	36,414	174,742
Change in estimate of decommissioning liabilities (note 5)	-	1,898
Foreign currency translation	104,600	(218,223)
<b>BALANCE, END OF PERIOD</b>	<b>3,944,573</b>	<b>3,803,559</b>
<b>ACCUMULATED DEPLETION</b>		
Balance, beginning of period	(1,582,575)	(1,211,605)
Depletion	(264,249)	(430,830)
Foreign currency translation	(35,200)	59,860
<b>BALANCE, END OF PERIOD</b>	<b>(1,882,025)</b>	<b>(1,582,575)</b>
<b>NET CARRYING AMOUNT, END OF PERIOD</b>	<b>2,062,548</b>	<b>2,220,984</b>

At September 30, 2018, future development costs of \$1,059,500 (December 31, 2017 - \$1,059,500) are included in costs subject to depletion. The Company's Canadian petroleum and natural gas assets continued to be shut-in during the period ended September 30, 2018 and continue to have a \$nil value.

#### Corporate assets

	As at September 30, 2018	As at December 31, 2017
<b>COST</b>		
Balance, beginning of period	20,385	20,385
Additions	-	-
<b>BALANCE, END OF PERIOD</b>	<b>20,385</b>	<b>20,385</b>
<b>ACCUMULATED DEPRECIATION</b>		
Balance, beginning of period	(18,259)	(17,333)
Depreciation	(449)	(926)
<b>BALANCE, END OF PERIOD</b>	<b>(18,708)</b>	<b>(18,259)</b>
<b>NET CARRYING AMOUNT, END OF PERIOD</b>	<b>1,677</b>	<b>2,126</b>

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## 5 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be \$402,290 as at September 30, 2018 (December 31, 2017 - \$357,466). The total undiscounted amount of estimated future cash flows is \$382,667 (December 31, 2017 - \$368,552). These payments are expected to be made over the next 11 years. The obligations on the Canadian properties have been calculated using an inflation rate of 2% (December 31, 2017 – 2%) and a discount factor, being the risk-free rate related to the liability, of 2.19% (December 31, 2017 – 1.66% - 1.81%). The obligations on the US properties have been calculated using an inflation rate of 2% (December 31, 2017 – 2%) and a discount factor, being the risk free rate related to the liability of 2.30% - 2.43% (December 31, 2017 – 1.81% - 1.97%).

During the year ended December 31, 2017, the Company completed the abandonment of substantially all of its Canadian petroleum and natural gas assets. Reclamation of these assets has not yet occurred.

	As at September 30, 2018	As at December 31, 2017
Balance, beginning of period	357,466	372,360
Liabilities incurred	38,712	4,999
Change in estimate	(1,240)	(14,840)
Accretion expense	4,730	3,392
Actual abandonment costs	(1,323)	
Foreign currency translation	3,944	(8,445)
<b>BALANCE, END OF PERIOD</b>	<b>402,290</b>	<b>357,466</b>

## 6 Secured debentures

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. The Company fulfilled both interest payment requirements during the year ended December 31, 2017 and at June 30, 2018. As of September 30, 2018, the Company has incurred \$473,497 of interest expense (December 31, 2017 - \$405,997), of which \$67,500 was incurred during the nine months ended September 30, 2018. Pursuant to the original Debenture agreement (the “Original Agreement”), the Debenture matures 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 and to extend the expiry date of the share purchase warrants until June 28, 2018. On June 28, 2018, the remaining 1,250,167 share purchase warrants were

# Marksmen Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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exercised for gross proceeds of \$212,528 (note 7(e)). The net present value of the future cash flows under the extended term were not greater than 10% of the net present value of the remaining cash flows immediately prior to the extension. The extension does not represent a significant modification to the original instrument. All other terms and conditions remain unchanged.

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.

On June 19, 2015, the Company closed an additional secured debenture (the "Debenture B") for gross proceeds of \$500,000. The funds received under the Debenture B were be deployed towards the continued developed of the Company's projects. The Debenture B bears interest of 12% per annum, with the first payment due and paid by the Company on December 31, 2015, with each subsequent payment due and payable semi-annually on December 31 and June 30 of each year commencing on December 31, 2015. The Company fulfilled both interest payment requirements during the year ended December 31, 2017 and at June 30, 2018. As of September 30, 2018, the Company has incurred \$197,075 (December 31, 2017 - \$152,383) of interest expense, of which \$44,692 was incurred during the nine months ended September 30, 2018. The Debenture B matures on December 31, 2018. The Company may, at any time, repay the Debenture B 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 B agreement, the Debenture B holder may demand repayment of the Debenture B or accelerate the date for payment. Security for the Debenture B includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof.

	Secured debentures
<b>Balance, December 31, 2016</b>	1,233,064
Accretion of secured debentures	7,895
<b>Balance, December 31, 2017</b>	1,240,959
Accretion of secured debentures	6,704
<b>Balance, September 30, 2018</b>	<b>1,247,663</b>

# Marksman Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

## 7 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
<b>Balance, December 31, 2016</b>	79,200,432	17,070,170
Shares issued pursuant to private placement (i)	1,350,000	90,895
Shares issued pursuant to private placement (ii)	3,002,500	181,176
Shares issued pursuant to private placement (iii)	3,826,333	249,046
Exercise of warrants (note 7(e))	444,800	75,616
Reallocation of warrant fair value on exercise (note 7(e))	-	5,751
Exercise of stock options (note 7(d))	278,000	22,650
Reallocation of stock option fair value on exercise	-	17,547
Share issue costs	-	(24,945)
<b>Balance, December 31, 2017</b>	<b>88,102,065</b>	<b>17,687,906</b>
Shares issued pursuant to private placement (iv)	3,458,409	478,884
Exercise of stock options (note 7(d))	721,000	51,800
Reallocation of stock option fair value on exercise	-	42,199
Exercise of warrants (note 7(e))	1,280,167	217,928
Reallocation of warrant fair value on exercise (note 7(e))	-	19,416
Share issue costs (iv)	-	(10,715)
<b>Balance, September 30, 2018</b>	<b>93,561,641</b>	<b>18,487,418</b>

- i) On March 31, 2017, the Company completed a private placement, issuing 1,350,000 units ("Unit A") for aggregate proceeds of \$135,000. 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 \$0.25 per common share for a period of 24 months from issuance, which was valued at \$44,105 (note 7(e)(i)). In connection with the private placement, the Company incurred cash share issue costs of \$3,505, of which \$1,145 were allocated to warrants (note 7(e)(i)).
- ii) On June 30, 2017, August 28, 2017 and October 27, 2017, the Company issued units under a private placement that was completed on October 27, 2017, issuing a total of 3,002,500 units ("Unit B") for aggregate proceeds of \$240,200. 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 \$0.25 per common share for a period of 24

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For the Three and Nine Months Ended September 30, 2018

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months from issuance, which was valued at \$59,024 (note 7(e)(ii)). In connection with the private placement, the Company incurred cash share issue costs of \$5,886, of which \$4,930 was allocated to share capital and \$956 was allocated to warrants.

- iii) On December 22, 2017, the Company completed a private placement, issuing 3,826,333 units ("Unit C") for aggregate proceeds of \$573,950. Each Unit C 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 \$0.30 per common share for a period of 24 months from issuance, which was valued at \$324,904 (note 7(e)(iii)). In connection with the private placement, the Company incurred cash share issue costs of \$24,556 and 111,947 broker warrants valued at \$16,132. Each broker warrant entitled the holder thereof to purchase one common share of the Company for \$0.15 for a period of 12 months from issuance (note 7(f)). Share issue costs of \$17,655 were allocated to share capital and \$23,033 was allocated to warrants.
- iv) On April 13 and April 27, 2018, the Company closed a private placement issuing a total of 3,458,409 units ("Unit D") for aggregate proceeds of \$726,266. Each Unit D 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 \$0.42 per common share for a period of 24 months from issuance, which was valued at \$247,382 (note 7(e)(iv)). In connection with the private placement, the Company incurred cash share issue costs of \$14,674 and issued 13,600 broker warrants valued at \$1,575. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.21 per common share for a period of 12 months from issuance (note 7(f)). Share issue costs of \$10,715 were allocated to share capital and \$5,534 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.

# Marksman Energy Inc.

## Notes to the Interim Consolidated Financial Statements

### For the Three and Nine Months Ended September 30, 2018

A summary of the status of the Company's stock option plan and changes during the period is as follows:

	As at September 30, 2018		As at December 31, 2017	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Balance, beginning of the period	8,057,000	0.19	7,421,667	0.18
Granted	1,400,000	0.22	2,025,000	0.17
Exercised	(721,000)	(0.07)	(278,000)	(0.08)
Cancelled	(162,000)	0.18	-	-
Expired	(300,000)	-	(1,111,667)	(0.12)
<b>BALANCE, END OF PERIOD</b>	<b>8,274,000</b>	<b>0.20</b>	<b>8,057,000</b>	<b>0.19</b>

Exercise Price (\$)	Options Outstanding	Weighted Average Remaining Term (Years)	Weighted Average Exercise Price (\$)	Options Exercisable	Weighted Average Exercise Price (\$)
0.00 - 0.09	1,884,000	2.48	0.06	2,119,000	0.09
0.10 - 0.19	1,690,000	1.70	0.14	1,558,333	0.16
0.20 - 0.29	2,850,000	4.20	0.20	950,000	0.21
0.40 - 0.49	1,850,000	0.88	0.40	1,850,000	0.40

As at September 30, 2018, the Company had 6,477,333 exercisable options and 1,796,667 options granted but not yet vested (December 31, 2017 – 6,281,667 and 1,775,333, respectively). The weighted average exercise price of the exercisable options is \$0.20 (December 31, 2017 - \$0.20).

#### d) Share-based payments

During the nine months ended September 30, 2018, the Company granted 1,400,000 stock options to purchase common shares of the Company to directors, officers, employees and consultants of the Company. The stock options were issued with an exercise price of \$0.22 per share (December 31, 2017 – 2,025,000). 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. 721,000 stock options were exercised and 162,000 were cancelled and 300,000 stock options expired (December 31, 2017 – 278,000 and nil, respectively).

# Marksman Energy Inc.

## Notes to the Interim Consolidated Financial Statements

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

	As at September 30, 2018	As at December 31, 2017
Risk-free interest rate	1.85%	0.63%
Expected life	2.5 years	2.5 years
Expected volatility	186.19%	166.61%
Fair value per option	\$0.17	\$0.04
Forfeiture rate	0.00%	0.00%
Dividend yield	-	-

Share-based payments expense recognized during the three and nine months ended September 30, 2018 were \$49,813 and \$281,220, respectively, (September 30, 2017 - \$16,323 and \$58,979, respectively), of which \$47,262 and \$266,575, respectively, has been recorded in the consolidated statement of comprehensive loss (September 30, 2017- \$15,696 and \$56,284, respectively) and \$2,551 and \$14,645, respectively, has been capitalized as exploration and evaluation (September 30, 2017- \$627 and \$2,695, 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
<b>Balance, December 31, 2016</b>	11,999,100	0.24	1,151,290	0.90
Expiry of warrants	(7,129,355)	0.25	(1,104,458)	-
Expiry of warrant share issue costs	-	-	66,718	-
Exercise of warrants	(444,800)	(0.17)	(5,751)	-
Warrants issued pursuant to private placement (note 7(b)(i))	675,000	0.25	44,105	1.25
Warrants issued pursuant to private placement (note 7(b)(ii))	1,501,250	0.25	59,024	1.57
Warrants issued pursuant to private placement (note 7(b)(iii))	1,913,167	0.25	324,904	1.98
Share issue costs (note 7(b))	-	-	(25,134)	-
<b>Balance, December 31, 2017</b>	<b>8,514,362</b>	<b>0.24</b>	<b>510,699</b>	<b>1.01</b>
Warrants issued pursuant to private placement (note 7(b)(iv))	1,729,205	0.42	247,382	1.83
Exercise of warrants	(1,280,167)	0.17	(19,416)	-
Share issue costs (note 7(b)(iv))	-	-	(5,534)	-
<b>Balance, September 30, 2018</b>	<b>8,963,400</b>	<b>0.29</b>	<b>733,130</b>	<b>0.82</b>

- (i) As part of the units issued on March 31, 2017 (note 7(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 \$0.25 for a period of 24 months from the date of closing. A value of \$44,105 (\$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 \$1,145 were allocated to warrants (note 7(b)(i)).
- (ii) As part of the units issued in the private placement that closed on October 27, 2017 (note 7(b)(ii)), subscribers received one half of one warrant per unit purchased. Each

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements

### For the Three and Nine Months Ended September 30, 2018

whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.25 for a period of 24 months from the date of closing. A value of \$59,024 (\$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 \$956 were allocated to warrants (note 7(b)(ii)).

- (iii) As part of the units issued in the private placement that closed on December 22, 2017 (note 7(b)(iii)), 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 \$0.30 for a period of 24 months from the date of closing. A value of \$324,904 (\$0.16 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 \$23,033 were allocated to warrants (note 7(b)(iii)).
- (iv) As part of the units issued in the private placement that closed on April 27, 2018 (note 7(b)(iv)), 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 \$0.42 for a period of 24 months from the date of closing. A value of \$247,382 (\$0.14 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 \$5,534 were allocated to warrants (note 7(b)(iv)).

The fair value of the stock options 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, 2018	As at December 31, 2017
Risk-free interest rate	1.85%	0.73%
Expected life	2.00 years	2.00 years
Expected volatility	179.31%	191.66%
Fair value per warrant	\$0.14	\$0.08

#### f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
<b>Balance, December 31, 2016</b>	58,080	0.15	4,207	0.29
Broker warrants expired unexercised	(58,080)	(0.15)	(4,207)	(0.29)
Broker warrants issued pursuant to private placement (note 7(b)(iii))	111,947	0.15	16,132	0.98
<b>Balance, December 31, 2017</b>	<b>111,947</b>	<b>0.15</b>	<b>16,132</b>	<b>0.73</b>
Broker warrants issued pursuant to private placement (note 7(b)(iv))	13,600	0.21	1,575	0.82
<b>Balance, September 30, 2018</b>	<b>125,547</b>	<b>0.16</b>	<b>17,707</b>	<b>0.26</b>



# Marksman Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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- (i) During the year ended December 31, 2017, the Company issued 111,947 (note 7(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 \$0.15 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$16,132 and recorded as share issue costs.
- (ii) As part of the private placement that closed on April 27, 2018, the Company issued 13,600 (note 7(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 \$0.21 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$1,575 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, 2018
Risk-free interest rate	1.85%
Expected life	1 year
Expected volatility	163.20%
Fair value per broker warrant	\$0.12

## g) Contributed surplus

	As at September 30, 2018	As at December 31, 2017
Balance, beginning of the period	4,854,074	3,663,937
Share-based payments (note 7(d))	266,575	142,485
Capitalized share-based payments (note 7(d))	14,645	11,327
Expiry of warrants (note 7(e))	-	1,104,458
Expiry of warrant share issue costs (note 7(e))	-	(66,718)
Broker warrants issued (note 7(f))	1,575	16,132
Exercise of stock options (note 7(c))	(42,200)	(17,547)
<b>BALANCE, END OF PERIOD</b>	<b>5,094,671</b>	<b>4,854,074</b>

## h) Per share data

Basic loss per share is calculated based on the weighted average number of shares outstanding during the period. 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.

# Marksmen Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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## 8 Related party transactions

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

During the three months ended September 30, 2018:

- a) An aggregate of \$25,000 (September 30, 2017 - \$29,980) in consulting fees were paid to professional corporation owned by a director and officer of the Company for compensation as CEO of the Company as well as \$7,500 (September 30, 2017 - \$7,500) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of \$16,590 USD (September 30, 2017 - \$11,830 USD) in consulting fees and related costs were paid to a director and Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. of which \$15,615 (September 30, 2017 - \$23,785) were capitalized as E&E costs (note 3).
- b) Aggregate legal fees of \$nil (September 30, 2017 - \$6,091) were charged by a law firm in which a director of the Company is a partner, of which \$nil (September 30, 2017 - \$1,537) were expensed as general and administrative expenses and \$nil (September 30, 2017 - \$4,554) were charged to share capital as share issue costs.

During the nine months ended September 30, 2018:

- c) An aggregate of \$135,600 (September 30, 2017 - \$87,950) in consulting fees were paid to professional corporation owned by a director and officer of the Company for compensation as CEO of the Company as well as \$22,500 (September 30, 2017 - \$22,500) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of \$60,035 USD (September 30, 2017 - \$49,907 USD) in consulting fees and related costs were paid to a director and Vice President of Operations, of the wholly owned subsidiary, Marksmen Energy USA, Inc. of which \$28,806 were capitalized as E&E costs (note 3).
- d) Aggregate legal fees of \$27,968 (September 30, 2017 - \$22,343) were charged by a law firm in which a director of the Company is a partner, of which \$16,150 (September 30, 2017 - \$12,953) were expensed as general and administrative expenses and \$11,818 (September 30, 2017 - \$9,390) were charged to share capital as share issue costs.
- e) As at September 30, 2018, the Company has accounts payable and accrued liabilities totaling \$21,974 (December 31, 2017 - \$32,337) owing to related parties relating to the above transactions.

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

# Marksmen Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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## 9 Financial risk management

Credit risk:

As at September 30, 2018, the Company's accounts receivable consisted of \$76,084 receivable from oil and natural gas marketing companies (December 31, 2017 - \$70,478), \$129,932 receivable from joint venture working interest owners (December 31, 2017 - \$448,106) and \$3,536 related to goods and service tax owing from the Government of Canada (December 31, 2017 - \$7,595). 73% of the Company's receivable are held with one oil and natural gas marketing company and is therefore subject to concentration risk. Receivables from oil and natural gas marketing companies are typically collected within one month of delivery of product and historically the Company has not experienced collection issues with its marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued and cash call receivables are usually provided to the operator at least 30 days in advance of drilling. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures. In certain circumstances, the Company may request an operating advance, cash call a partner in advance of capital expenditures being incurred, or revoke a non-operating working interest owners take-in-kind rights pursuant to joint operating agreement provisions. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint ventures; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

The Company's trade and other receivables have been aged as follows:

<b>Days outstanding</b>	As at	
	September 30, 2018	December 31, 2017
0-30 days	86,307	503,641
31-60 days	65,886	22,407
61-90 days	-	-
Greater than 90 days	57,358	131
<b>TOTAL</b>	<b>209,552</b>	<b>526,179</b>

# Marksmen Energy Inc.

Notes to the Interim Consolidated Financial Statements

For the Three and Nine Months Ended September 30, 2018

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## 10 Commitments

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

At September 30, 2018, included in deposits and prepaid expenses is an amount of \$40,241 on deposit with the AER associated with the Company’s operated wells in Alberta (December 31, 2017 - \$39,790). 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 abandon, sell or bring certain wells back on production to add positive deemed asset valuation.

- b) **The Surface Rights Board – (“SRB”)** is a quasi-judicial tribunal in Alberta that has a dispute resolution process to resolve issues of non-payment of surface leases to landowners by oil and gas companies. On September 18, 2018, Marksmen has been served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections in the amount of \$86,182 related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010. Marksmen has an Assignment of Surface Rights agreement with the third-party, effective August 1, 2010 whereby the responsibility for the payment of surface leases is with the third party. The third-party does not dispute this agreement in any way and agrees they are responsible for the payment of surface leases – indeed they did make a partial payment to Service Alberta in November 2018.

Marksmen did agree to retain a nominal 1% working interest in the sold properties and act as the operator of the wells on the behalf of the third-party company. Marksmen’s position on this judgement is that the assignment of Surface Rights agreements takes precedent while the SRB asserts that the provincial laws governing the SRB places the responsibility on the operator as defined by Alberta law governing SRB and the Alberta Energy Regulator. Marksmen has filed a submission regarding our position and we have not had a ruling by the SRB tribunal.

If a ruling is handed down that is not in Marksmen’s favour, then the Company will explore its options. The Company has not accrued these costs since they are currently considered a third-party liability pending an SRB ruling and/or legal advice.

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three and Nine Months Ended September 30, 2018

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### 11 Segmented information

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

Geographical segmentation is as follows:

	For the nine months ended September 30, 2018		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	950,812	950,812
Depletion and depreciation	449	264,249	264,698
Net loss and comprehensive loss (income)	837,969	(388,492)	449,477
Exploration and evaluation assets	-	3,568,823	3,568,823
Property, plant and equipment	1,677	2,062,549	2,064,226
Total liabilities	1,592,596	476,389	2,068,985

  

	For the nine months ended September 30, 2017		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	906,770	906,770
Depletion and depreciation	694	330,827	331,521
Net loss and comprehensive loss (income)	555,086	(332,596)	222,490
Exploration and evaluation assets	-	1,723,311	1,723,311
Property, plant and equipment	2,358	2,161,545	2,163,902
Total liabilities	1,611,677	158,291	1,769,968

### 12 Subsequent events

On November 16, 2016, the Company closed a private placement issuing a total of 3,125,002 units for aggregate proceeds of \$375,000. Each unit 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 \$0.24 per common share for a period of 24 months from issuance. In connection with the private placement, the Company incurred cash share issue costs of \$800 and issued 8,000 broker warrants. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.12 per common share for a period of 12 months from issuance.