

# Marksmen Energy Inc.

Consolidated Financial Statements

**For the three months ended March 31, 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 month periods ended March 31, 2018 and 2017.

# Marksmen Energy Inc.

## Consolidated Statements of Financial Position

As at:

(Canadian \$)	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets		
Cash	382,899	801,097
Trade and other receivables (note 9)	188,394	526,179
Deposits and prepaid expenses (note 10)	60,515	59,858
Total Current Assets	631,808	1,387,134
Exploration and evaluation (note 3)	2,650,566	1,736,033
Property and equipment (note 4)	2,243,285	2,223,110
<b>TOTAL ASSETS</b>	<b>5,525,659</b>	<b>5,346,277</b>
<b>LIABILITIES</b>		
Current Liabilities		
Accounts payable and accrued liabilities	668,903	515,871
Secured debentures (note 6)	1,243,143	1,240,959
Total Current Liabilities	1,912,046	1,756,830
Decommissioning liabilities (note 5)	401,040	357,466
	<b>2,313,086</b>	<b>2,114,296</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 7(b))	17,715,089	17,687,906
Warrants (note 7(e))	510,698	510,698
Contributed surplus (note 7(g))	4,877,186	4,854,074
Accumulated other comprehensive income	502,649	424,617
Deficit	(20,393,049)	(20,245,314)
	<b>3,212,573</b>	<b>3,231,981</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>5,525,659</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 K. 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 years ended:

(Canadian \$)	<b>Three months ended</b>	
	March 31, 2018	March 31, 2017
<b>REVENUE</b>		
Petroleum and natural gas sales	260,942	366,804
Royalties	(30,371)	(47,835)
	230,571	318,969
<b>EXPENSES</b>		
Production and operating expenses	15,904	29,363
Depletion and depreciation (note 4)	78,638	133,911
General and administrative	209,705	123,808
Share-based payments (note 7(d))	33,322	10,213
<b>(Loss) income from operations</b>	<b>(106,998)</b>	<b>21,674</b>
<b>FINANCE EXPENSE</b>		
Interest expense (note 6)	36,986	36,987
Accretion of secured debentures (note 6)	2,184	1,907
Accretion of decommissioning liabilities (note 5)	1,566	708
	(40,736)	(39,602)
<b>OTHER EXPENSES (INCOME)</b>		
(Recovery) of abandonment estimates	-	(67)
<b>NET LOSS</b>	<b>(147,734)</b>	<b>(17,861)</b>
<b>Other comprehensive income that may subsequently be transferred to net loss</b>		
Currency translation adjustment	78,032	(33,766)
<b>NET LOSS AND COMPREHENSIVE LOSS</b>	<b>(69,702)</b>	<b>(51,627)</b>
Basic and diluted loss per share (note 7(h))	(0.00)	(0.00)
Weighted average number of common shares outstanding during the period	88,266,010	79,200,432

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# Marksman Energy Inc.

## Consolidated Statements of Changes in Equity

(Canadian \$)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated		Total
					Other Comprehensive	Income	
<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	-	-	-	(147,734)	-	-	(147,734)
Translation differences on foreign subsidiaries	-	-	-	-	78,032	-	78,032
Exercise of stock options (note 7(c))	15,200	-	-	-	-	-	15,200
Reallocation of stock option fair value on exercise	11,983	-	(11,983)	-	-	-	-
Share-based payments (note 7(d))	-	-	35,094	-	-	-	35,094
<b>BALANCE AS AT MARCH 31, 2018</b>	<b>17,715,089</b>	<b>510,698</b>	<b>4,877,186</b>	<b>(20,393,049)</b>	<b>502,649</b>	<b>-</b>	<b>3,212,573</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	-	-	-	(17,861)	-	-	(17,861)
Translation differences on foreign subsidiaries	-	-	-	-	(33,766)	-	(33,766)
Private placement (note 7(b))	90,895	44,105	-	-	-	-	135,000
Cash share issue costs (note 7(b))	(2,360)	(1,145)	-	-	-	-	(3,505)
Expiry of warrants (note 7(e))	-	(232,834)	232,834	-	-	-	-
Reallocation of warrant fair value on expiry (note 7(e))	-	3,820	(3,820)	-	-	-	-
Share-based payments (note 7(d))	-	-	11,655	-	-	-	11,655
<b>BALANCE AS AT MARCH 31, 2017</b>	<b>17,158,705</b>	<b>965,236</b>	<b>3,904,606</b>	<b>(19,699,270)</b>	<b>656,699</b>	<b>-</b>	<b>2,985,976</b>

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# Marksmen Energy Inc.

## Consolidated Statements of Cash Flows

(Canadian \$)	Three months ended	
	March 31, 2018	March 31, 2017
<b>CASH (USED IN) PROVIDED BY:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(147,734)	(17,861)
<b>ITEMS NOT AFFECTING CASH:</b>		
Depletion and depreciation (note 4)	78,638	133,911
Accretion of decommissioning liabilities (note 5)	1,566	708
Accretion of secured debentures (note 6)	2,184	1,907
Recovery of abandonment estimates	-	(67)
Share-based payments (note 7(d))	33,322	10,213
Change in trade and other receivables	337,785	14,850
Change in deposits and prepaid expenses	(657)	(387)
Change in accounts payable and accrued liabilities	86,420	(15,406)
<b>CASH FLOW USED IN OPERATING ACTIVITIES</b>	<b>391,524</b>	<b>127,868</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures on property and equipment (note 4)	390	(20,447)
Expenditures on exploration and evaluation (note 3)	(875,970)	(34,350)
Change in non-cash working capital	(209,053)	14,548
<b>CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(1,084,633)</b>	<b>(40,249)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from private placements, net of cash issue costs	-	131,495
Proceeds from exercise of stock options	15,200	-
Change in accounts payable and accrued liabilities	275,666	-
<b>CASH FLOW PROVIDED BY FINANCING ACTIVITIES</b>	<b>290,866</b>	<b>131,495</b>
Foreign exchange effect on cash and cash equivalents	(15,955)	(253)
(Decrease) increase in cash	(418,198)	218,862
Cash, beginning of period	801,097	116,806
<b>CASH, END OF PERIOD</b>	<b>382,899</b>	<b>335,668</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 Months Ended March 31, 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 March 31, 2018, the Company had not yet achieved profitable operations, had accumulated a deficit of \$20,393,049 (December 31, 2017 - \$20,245,314) since its inception, cash flow from operations of \$391,524 (December 31, 2017 - (\$50,573)), a working capital deficiency with secured debentures excluded of \$37,095 (December 31, 2017 - working capital \$871,263), or a working capital deficiency of \$1,280,238 (December 31, 2017 - \$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 March 31, 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 (subsequent to March 31, 2018, the Company successfully completed a private placement for gross proceeds of \$425,666 (note 12)), 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. Conversely, if the assumption made by management is not appropriate and the Company is

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

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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 May 29, 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 Marksmen Energy USA, Inc. The subsidiary is fully consolidated from the date of acquisition, being the date of which the Company obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. Any balances, unrealized gains and losses, or income and expenses from intra-company transactions are fully eliminated upon consolidation.

#### c) Basis of measurement:

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

#### d) Functional and presentation currency:

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

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## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 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 March 31, 2018	As at December 31, 2017
Balance, beginning of period	1,736,033	1,736,916
Expenditures on exploration and evaluation assets	877,742	86,792
Foreign exchange translation	36,791	(87,675)
<b>BALANCE, END OF PERIOD</b>	<b>2,650,566</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 March 31, 2018, the Company has \$2,650,566 in E&E assets (December 31, 2017 - \$1,736,033). The additions represent the acquisition of undeveloped land and seismic activity within Ohio, USA, and include \$1,772 of capitalized share-based payments and \$13,190 of capitalized consulting payments. The transfers to property and equipment reflect assets in which technological feasibility and commercial viability have been established. There were no transfers during the three months ended March 31, 2018 (December 31, 2017 - \$nil). As at March 31, 2018, there were no indicators of impairment of the E&E assets.



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## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

### 4 Property and equipment

	As at March 31, 2018	As at December 31, 2017
Petroleum and natural gas assets	3,933,382	3,803,559
Corporate assets	20,385	20,385
Property and equipment at cost	3,953,768	3,823,944
Accumulated depletion and depreciation	(1,710,483)	(1,600,834)
<b>PROPERTY AND EQUIPMENT NET CARRYING AMOUNT</b>	<b>2,243,285</b>	<b>2,223,110</b>

#### Petroleum and natural gas assets

	As at March 31, 2018	As at December 31, 2017
<b>COST</b>		
Balance, beginning of period	3,803,559	3,845,142
Additions	38,560	174,742
Change in estimate of decommissioning liabilities (note 5)	-	1,898
Foreign currency translation	91,263	(218,223)
<b>BALANCE, END OF PERIOD</b>	<b>3,933,382</b>	<b>3,803,559</b>
<b>ACCUMULATED DEPLETION</b>		
Balance, beginning of period	(1,582,575)	(1,211,605)
Depletion	(78,488)	(430,830)
Foreign currency translation	(31,010)	59,860
<b>BALANCE, END OF PERIOD</b>	<b>(1,692,074)</b>	<b>(1,582,575)</b>
<b>NET CARRYING AMOUNT, END OF PERIOD</b>	<b>2,241,308</b>	<b>2,220,984</b>

At March 31, 2018, future development and production 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 March 31, 2018, and continue to have a \$nil value.

#### Corporate assets

	As at March 31, 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	(150)	(926)
<b>BALANCE, END OF PERIOD</b>	<b>(18,409)</b>	<b>(18,259)</b>
<b>NET CARRYING AMOUNT, END OF PERIOD</b>	<b>1,976</b>	<b>2,126</b>

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

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### 5 Decommissioning liabilities

The Company has estimated the net present value of the decommissioning liabilities to be \$401,040 as at March 31, 2018 (December 31, 2017 - \$357,466). The total undiscounted amount of estimated future cash flows is \$382,145 (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 1.76% - 2.02% (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 1.94% - 2.02% (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 March 31, 2018	As at December 31, 2017
Balance, beginning of period	357,466	372,360
Liabilities incurred	38,580	4,999
Change in estimate	369	(14,840)
Accretion expense	1,566	3,392
Foreign currency translation	3,058	(8,445)
<b>BALANCE, END OF PERIOD</b>	<b>401,040</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. As of March 31, 2018, the Company has incurred \$427,983 of interest expense (December 31, 2017 - \$405,997), of which \$21,986 was incurred during the three months ended March 31, 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. 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

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

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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. As of March 31, 2018, the Company has incurred \$167,383 (December 31, 2017 - \$152,383) of interest expense, of which \$15,000 was incurred during the three months ended March 31, 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	2,184
<b>Balance, March 31, 2018</b>	<b>1,243,143</b>

# Marksman Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 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>
Exercise of stock options (note 7(d))	190,000	15,200
Reallocation of stock option fair value on exercise	-	11,983
<b>Balance, March 31, 2018</b>	<b>88,292,065</b>	<b>17,715,089</b>

- i) On March 31, 2017, the Company completed a private placement, issuing 1,350,000 units ("Unit B") for aggregate proceeds of \$135,000. 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 \$0.25 per common share for a period of 24 months from issuance, which was valued at \$44,105 (note 7(e)(ii)). 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)(ii)).
- 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 C") for aggregate proceeds of \$240,200. 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 \$0.25 per common share for a period of 24 months from issuance, which was valued at \$59,024 (note 7(e)(iii)). 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.

# Marksman Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

- iii) On December 22, 2017, the Company completed a private placement, issuing 3,826,333 units (“Unit D”) for aggregate proceeds of \$573,950. 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 \$0.30 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.

### c) Stock options

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

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

	As at March 31, 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	-	-	2,025,000	0.17
Exercised	(190,000)	(0.08)	(278,000)	(0.08)
Cancelled	(162,000)	0.18	-	-
Expired	-	-	(1,111,667)	(0.12)
<b>BALANCE, END OF PERIOD</b>	<b>7,705,000</b>	<b>0.19</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	2,355,000	2.97	0.06	1,929,667	0.06
0.10 - 0.19	2,050,000	2.00	0.15	1,666,667	0.16
0.20 - 0.29	1,450,000	4.70	0.20	483,333	0.20
0.40 - 0.49	1,850,000	1.39	0.40	1,850,000	0.40

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

As at March 31, 2018, the Company had 5,929,667 exercisable options and 1,775,333 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 three months ended March 31, 2018, the Company did not grant stock options (December 31, 2017 – 2,025,000), and 190,000 were exercised and 162,000 were cancelled (December 31, 2017 – 278,000 and nil, respectively). One third of the stock options vest immediately and the remaining stock options granted vest one third on each of the first and second anniversary of the grant date. The forfeiture rates are based on historical data and managements estimates. The fair value of the options granted is estimated as at the grant date using the Black-Scholes option pricing model.

Share-based payments expense recognized during the three months ended March 31, 2018 was \$35,094 (March 31, 2017 - \$11,655), of which \$33,322 has been recorded in the consolidated statement of comprehensive loss (March 31, 2017- \$10,213) and \$1,772 has been capitalized as exploration and evaluation (March 31, 2017- \$1,442), 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 and March 31, 2018</b>	<b>8,514,362</b>	<b>0.24</b>	<b>510,699</b>	<b>1.01</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 Months Ended March 31, 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)).

### f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2016	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
Balance, December 31, 2017 and March 31, 2018	111,947	0.15	16,132	0.73

- (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.

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:

	For the year ended December 31, 2017
Risk-free interest rate	1.64%
Expected life	1 year
Expected volatility	176.33%
Fair value per broker warrant	\$0.14

### g) Contributed surplus

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## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

	As at March 31, 2018	As at December 31, 2017
Balance, beginning of the period	4,854,074	3,663,937
Share-based payments (note 7(d))	33,322	142,485
Capitalized share-based payments (note 7(d))	1,772	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))	-	16,132
Exercise of stock options (note 7(c))	(11,983)	(17,547)
<b>BALANCE, END OF PERIOD</b>	<b>4,877,186</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.

## 8 Related party transactions

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

- a) An aggregate of \$62,700 (March 31, 2017 - \$29,400) 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 (March 31, 2017 - \$7,500) for costs associated with office space, storage space, and various administrative support costs. Additionally, an aggregate of \$19,785 (March 31, 2017 - \$23,785) 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 \$13,190 (March 31, 2017 - \$23,785) were capitalized as E&E costs (note 3).
- b) Aggregate legal fees of \$5,735 (March 31, 2017 - \$4,595) were charged by a law firm in which a director of the Company is a partner, of which \$5,735 (March 31, 2017 - \$1,090) were expensed as general and administrative expenses and \$nil (March 31, 2017 - \$3,505) were charged to share capital as share issue costs.
- c) As at March 31, 2018, the Company has accounts payable and accrued liabilities totaling \$64,303 (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 Months Ended March 31, 2018

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### 9 Financial risk management

Credit risk:

As at March 31, 2018, the Company's accounts receivable consisted of \$137,369 receivable from oil and natural gas marketing companies (December 31, 2017 - \$70,478), \$43,639 receivable from joint venture working interest owners (December 31, 2017 - \$448,106) and \$7,386 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	
	March 31, 2018	December 31, 2017
0-30 days	180,876	503,641
31-60 days	7,386	22,407
61-90 days	-	-
Greater than 90 days	132	131
<b>TOTAL</b>	<b>188,394</b>	<b>526,179</b>

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

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### 10 Commitments

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

At March 31, 2018, included in deposits and prepaid expenses is an amount of \$39,924 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.

### 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 three months ended March 31, 2018		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	260,942	260,942
Depletion and depreciation	150	78,488	78,638
Net loss and comprehensive loss (income)	241,572	(93,838)	147,734
Exploration and evaluation assets	-	2,650,566	2,650,566
Property, plant and equipment	1,976	2,241,309	2,243,285
Total liabilities	1,945,222	367,864	2,313,086

  

	For the three months ended March 31, 2017		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	366,804	366,804
Depletion and depreciation	231	133,680	133,911
Net loss and comprehensive loss (income)	173,424	(155,563)	17,861
Exploration and evaluation assets	-	1,761,079	1,761,079
Property, plant and equipment	2,821	2,498,385	2,501,206
Total liabilities	1,654,642	177,193	1,831,835

# Marksmen Energy Inc.

## Notes to the Interim Consolidated Financial Statements For the Three Months Ended March 31, 2018

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### 12 Subsequent events

- a) On April 13 and April 27, 2018, the Company closed a private placement issuing a total of 3,458,409 units for aggregate proceeds of \$726,266 (\$0.21 per Unit). 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 \$0.42 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 \$2,856 and issued 13,600 broker warrants. The broker warrants entitled the holder to acquire one common share of the Company at a price of \$0.21 per common share for a period of 12 months from issuance.
- b) On April 27, 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, vest as to 1/3 immediately and 1/3 on each of the first and second anniversary dates and have a 5 year term.