TSX Venture – MAH **Report for the year ended**

New York OTCQB Venture Marketplace – MKSEF **December 31, 2019**

MANAGEMENT'S 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, 2019 and was prepared with information available up to May 28, 2020 and should be read in conjunction with Marksmen Energy Inc.'s consolidated audited financial statements for the year ended, December 31, 2019. All values in this MD&A are expressed in Canadian currency ("CAD") unless specifically notated as USA currency ("USD"). Certain information regarding Marksmen contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

Basis of Presentation

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

Application of Accounting Estimates

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

Non-IFRS

This MD&A includes the following measures that are from time to time used by the Company, but do not have any standardized meaning under IFRS 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 year, 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 from total current assets.

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.

Postponement of Filing of Documents due to Covid-19 Pandemic

Marksmen Energy Inc. is relying on the exemption provided in Alberta Instrument 51-517 - *Temporary Exemption from Certain Corporate Finance Requirements* (the "**Alberta Instrument**") of the Alberta Securities Commission (and similar exemptions provided by the securities commission in British Columbia) to postpone the filing of the following continuous disclosure documents until on or prior to May 29, 2020:

- the Company's Annual Audited Financial Statements for the twelve-month period ended December 31, 2019 as required by section 4.2 of National Instrument 51-102 - *Continuous Disclosure Obligations* ("**NI 51-102**");

- the Company's Management Discussion & Analysis for the twelve-month period ended December 31, 2019 as required by section 5.1(2) of NI 51-102;

- the Company's Statement of Reserves Data and Other Oil and Gas Information, Report on Reserves Data by Independent Qualified Reserves Evaluator, and Report of Management and Directors on Oil and Gas Disclosure for the year ended December 31, 2019 as required by section 2.1 of National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities*; and

- the Company's Annual Information Form.

Covid-19 Pandemic

The Covid-19 pandemic has impacted how we all work and live. Until appropriate medical treatments and eventually a vaccine is developed and made available Marksmen will continue to proceed cautiously with social distancing and adherence to all applicable medical and legal guidelines and will encourage all vendors to do the same. In Ohio, the oil and gas industry is considered an essential service, therefore operations and capital projects will continue in 2020 but the application of cautious guidelines by all businesses are impactful, resulting in a less efficient environment.

Introduction

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

In 2018, Marksmen participated in the drilling of a horizontal Clinton Sandstone formation well, operated by Hocking Hills Energy and Well Services LLC ("HHE"). The Leaman #1 well was drilled and completed to a total depth of 6,398 feet of which approximately 2,700 feet was the horizontal leg. A casing failure occurred at the beginning of the fracture stages, which required substantial remedial work to side-track a horizontal leg just above the collapsed casing. This was completed in late December 2018. The well was production tested and put on production in 2019. Subsequent to December 31, 2019 HHE is proposing a plan to workover the well to improve production. Marksmen may agree or not to participate in this workover and our decision potentially will be impacted by a legal dispute between HHE and Marksmen – *see Related Legal Matter and Joint Venture Audit*.

In 2019 Marksmen executed a Joint Operating Agreement ("JOA") with PEP Drilling Inc., of Ohio, to recomplete up to 40 wells in the Clinton Sandstone formation, that was previously by-passed and not produced. The wells are located in Portage County, Ohio. Marksmen has chosen the first four wells to recomplete with the first well currently being completed. All of these wells come with all of the necessary infrastructure including surface and downhole equipment. Each well recompletion will take approximately two weeks from start to the beginning of production. In the JOA, Marksmen also has the right of first refusal to participate in the drilling of other Clinton Sandstone wells on PEP lands.

In order to complete capital projects, the Company will consider additional equity by way of private placements, other financial instruments and the use of funds generated from operations. Capital projects will be undertaken as funding is available.

Selected Annual Information

Selected operational and financial information from the last three fiscal years is presented below. This summary should be read in conjunction with audited and unaudited consolidated financial statements of the Company.

		Year Ended Dec 31, 2019		Year Ended Dec 31, 2018		Year Ended Dec 31, 2017
Oil Production Net - bbls		7,374		14,320		18,103
Petroleum revenue	$	542,388	$	1,190,013	$	1,165,517
Royalties	$	(71,227)	$	(155,207)	$	(152,104)
Production and operating expenses	$	(183,621)	$	(112,734)	$	(131,088)
Income from operations	$	287,540	$	922,072	$	882,325
Revenue per barrel	$	73.55	$	83.10	$	64.38
Net loss before Impairment	$	(1,101,964)	$	(725,097)	$	(563,905)
Exploration and evaluation impairment	$	(2,777,427)	$	-	$	-
Net loss	$	(3,879,391)	$	(725,097)	$	(563,905)
Currency translation adjustment	$	(222,496)	$	418,439	$	(265,849)
Net loss and comprehensive loss	$	(4,101,887)	$	(306,658)	$	(829,754)
Cash-flow provided by (used in) operating activities	$	(466,348)	$	445,864	$	(50,573)
Cash-flow used in investing activities	$	(573,954)	$	(2,642,054)	$	(287,700)
Cash-flow provided by financing activiites	$	1,044,226	$	1,355,872	$	1,013,469
Cash on hand end of year	$	113,203	$	107,685	$	801,097
Exploration and evaluation assets	$	1,901,306	$	4,545,574	$	1,736,033
Property and equipment assets	$	2,005,697	$	2,076,848	$	2,223,110
Total assets	$	4,111,593	$	6,881,026	$	5,346,277
Total liabilities	$	2,232,667	$	2,241,952	$	2,114,296
Total shareholder's equity	$	1,878,926	$	4,639,074	$	3,231,981
Total liabilities and equity	$	4,111,593	$	6,881,026	$	5,346,277
Common shares outstanding - basic		113,237,590		96,736,643		88,102,065
Common shares outstanding - weighted average		104,085,992		92,212,044		81,620,976

Quarterly Financial Information

The following is a summary of selected quarterly information. This summary should be read in conjunction with audited and unaudited consolidated financial statements of the Company.

Quarterly Information	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018
Net Oil Production - bbls	824	2,410	2,109	2,031	3,070	3,459	4,444	3,347
Net Oil Production - bbls / day	9.0	26.2	23.2	22.6	33.4	37.6	48.8	37.2
Revenue - oil	$ 59,295	$ 175,352	$ 164,094	$ 143,647	$ 239,204	$ 309,083	$ 380,784	$ 260,942
Royalties	$ (7,910)	$ (22,888)	$ (21,484)	$ (18,945)	$ (31,244)	$ (40,147)	$ (53,445)	$ (30,371)
Production and operating expenses	$ (90,266)	$ (24,360)	$ (40,590)	$ (28,405)	$ (36,931)	$ (39,515)	$ (20,384)	$ (15,904)
Income (loss) from operations	$ (38,881)	$ 128,104	$ 102,020	$ 96,297	$ 171,029	$ 229,421	$ 306,955	$ 214,667
Exploration evaluation impairment	$ (2,777,427)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Loss after impairment	$ (3,230,836)	$ (164,562)	$ (198,364)	$ (285,629)	$ (275,620)	$ (77,841)	$ (223,902)	$ (147,734)
Total assets	$ 4,111,593	$ 6,898,200	$ 6,786,352	$ 6,831,801	$ 6,881,026	$ 6,243,527	$ 6,375,910	$ 5,525,659
Total liabilities	$ 2,232,667	$ 2,114,862	$ 2,010,856	$ 2,098,838	$ 2,241,952	$ 2,087,866	$ 2,087,866	$ 2,313,086
Total shareholder's equity	$ 1,878,926	$ 4,783,338	$ 4,775,496	$ 4,732,963	$ 4,639,074	$ 4,174,542	$ 4,288,044	$ 3,231,981
Total liabilities & equity	$ 4,111,593	$ 6,898,200	$ 6,786,352	$ 6,831,801	$ 6,881,026	$ 6,262,408	$ 6,375,910	$ 5,545,067
Common shares issued & outstanding	113,237,590	107,993,590	106,713,590	100,813,590	96,736,643	93,561,641	93,561,641	88,295,065

Operating Net Back – Ohio, USA in $USD

Operating netbacks are calculated by deducting royalties and operating costs from revenues and dividing the operating income by the number of produced barrels of oil. This is a widely used measurement in the oil and gas industry but is not have standardized meaning under IFRS.

$USD	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Total 2018	Change	% Change
Net Oil Production - bbls	2,031	2,109	2,410	824	7,374	14,320	(6,946)	-49%
Revenue	$ 108,005	$ 122,754	$ 132,687	$ 45,317	$ 408,763	$ 918,432	$ (509,669)	-55%
Royalty expense	$ (14,245)	$ (16,070)	$ (17,320)	$ (6,044)	$ (53,679)	$ (119,787)	$ 66,108	-55%
	$ 93,760	$ 106,684	$ 115,367	$ 39,273	$ 355,084	$ 798,645	$ (443,561)	-56%
Production costs	$ (18,548)	$ (23,404)	$ (15,742)	$ (65,669)	$ (123,363)	$ (66,824)	$ (56,539)	85%
Income from Field Operations	$ 75,212	$ 83,280	$ 99,625	$ (26,396)	$ 231,721	$ 731,821	$ (500,100)	-68%
Revenue / bbl	$ 53.18	$ 58.20	$ 55.06	$ 55.00	$ 55.43	$ 64.14	$ (8.70)	-14%
Royalties / bbl	$ (7.01)	$ (7.62)	$ (7.19)	$ (7.33)	$ (7.28)	$ (8.37)	$ 1.09	-13%
Operating costs / bbl	$ (9.13)	$ (11.10)	$ (6.53)	$ (79.70)	$ (16.73)	$ (4.67)	$ (12.06)	259%
Operating Netback / bbl	$ 37.03	$ 39.49	$ 41.34	$ (32.03)	$ 31.42	$ 51.10	$ (19.68)	-39%

The Company's production decreased in 2019 to 7,374barrels compared to 14,320 barrels in 2018, a decrease of 6,946 barrels or 49%. The reduced production is attributed partially to normal decline due to the depletion of reserves but also due to down hole pump efficiencies at the Davis Holbrook well that resulted in a number of shut-in days in Q4 while waiting on workovers. Also, optimization projects to improve production at certain wells were not undertaken due to capital constraints. Lower commodity prices and high operating and workover costs in the fourth quarter reduced the operating netback by 39% in 2019 to $31.42 per bbl. compared to $51.10 in 2018.

Production Improvement and Optimization Plans for 2020

- Marksmen is currently completing its first Clinton Sandstone recomplete well in Portage County, Ohio under the terms of a Joint Venture Agreement. There are up to 40 recomplete drilling locations available to Marksmen and the Company plans to do one well every one or two months depending on production rates and capital funding.
- At the Company's Strittmatter location there is an opportunity to complete an upper zone that was originally bypassed.
- At BJ78-11, there is a relatively minor downhole repair needed that will bring this well back on production.
- At Davis-Holbrook, the Company's best well, there is a portion of the producing zone that was not perforated or acidized originally. Completing this additional footage will potentially increase production.
- At Pickaway County there are five or more offset locations: two or possibly three at Davis Holbrook that are no longer constrained by a clause in a contract; one at Strittmatter; and one at Delong Davis. These locations are located on lands covered by the Company's existing 3D seismic.
- At Leaman #1, the Operator, HHE, has presented Marksmen with a plan to optimize this well and improve production. Marksmen is currently evaluating our options with this well.

Well Information

In 2018 Marksmen participated in the drilling of a horizontal well, Leaman #1, located in Hocking County. The well was completed in December of 2018 and put on production in 2019. There are optimization opportunities at four wells including the Leaman #1 well.

	2019		2018	
Well Information	**Wells**	**Net Marksmen %**	Wells	Net Marksmen %
Production testing	**-**	**-**	1.0	60.0
Producing wells	**5.0**	**66.0**	4.0	67.5
Water injection well	**1.0**	**100.0**	1.0	100.0
Shut-in wells	**2.0**	**75.0**	2.0	75.0

Alberta

Marksmen's wells at Alder Flats in Alberta have been shut-in since 2010 as they were uneconomic. Of these six wells, one well was abandoned at the time of drilling and four other wells were abandoned in August 2015. Reclamation work has been on-going with some site clean-up in 2018 and 2019 and this will continue in 2020 when funds are available. The remaining well at Alder Flats is shut-in but not abandoned. In 2019, there was $19,930 (2018 $26,150) spent on lease rentals, property tax and lease clean-up.

In May 2020, the federal government, in conjunction with the Department of Energy in Alberta announced a multi-faceted, 100-million-dollar assistance packages to facilitate job creation in the western Canadian oil and gas industry. Part of the funds are earmarked specifically to assist companies in abandoning and reclaiming oil and gas wells. Marksmen has to applied to participate in this program.

Operating Results in $CDN

$CDN	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Total 2018	Change	% Change
Net Oil Production - bbls	2,031	2,109	2,410	824	7,374	14,320	(6,946)	-49%
Revenue	$ 143,647	$ 164,094	$ 175,352	$ 59,295	$ 542,388	$ 1,190,013	$ (647,625)	-54%
Royalty expense	$ (18,945)	$ (21,484)	$ (22,888)	$ (7,910)	$ (71,227)	$ (155,207)	$ 83,980	-54%
	$ 124,702	$ 142,610	$ 152,464	$ 51,385	$ 471,161	$ 1,034,806	$ (563,645)	-54%
Production costs	$ (28,405)	$ (40,590)	$ (24,360)	$ (90,266)	$ (183,621)	$ (112,734)	$ (70,887)	63%
Income from Field Operations	$ 96,297	$ 102,020	$ 128,104	$ (38,881)	$ 287,540	$ 922,072	$ (634,532)	-69%
Revenue / bbl	$ 70.73	$ 77.81	$ 72.76	$ 71.96	$ 73.55	$ 83.10	$ (9.55)	-11%
Royalties / bbl	$ (9.33)	$ (10.19)	$ (9.50)	$ (9.60)	$ (9.66)	$ (10.84)	$ 1.18	-11%
Production expenses / bbl	$ (13.99)	$ (19.25)	$ (10.11)	$ (109.55)	$ (24.90)	$ (7.87)	$ (17.03)	216%
Operating Netback / bbl	$ 47.41	$ 48.37	$ 53.16	$ (47.19)	$ 38.99	$ 64.39	$ (25.40)	-39%

Oil Revenue - for the year ended December 31, 2019 decreased by 49% to $542,388 compared to $1,190,013 in 2018. This decrease is attributed to lower overall production due to shut in time due to bottom hole pump issues and lower commodity prices. Revenue is paid to Marksmen directly by an oil marketing company and the price paid is based on their posted prices derived from West Texas Intermediate oil ("WTI") commodity prices.

Royalties – are paid by the oil marketing company at 12.5% of revenue on Marksmen's behalf to the royalty rights owners of record. There are no royalties paid to the state of Ohio but rather an oil severance tax of $0.20 per barrel. Total royalties paid in 2019 were $71,227 compared to $155,207 in 2018.

Production Expenses – for the year ended December 31, 2019 production expenses increased by 63% to $183,621 or 63% in 2019 compared to $112,734 in 2018. There were a number of one-time costs related to bottom hole pump workovers in the fourth quarter of 2019 plus higher than expected operating costs at the Leaman #1 horizontal well.

General and Administrative Expenses

General & Administrative Expenses		2019		2018		Change	% Change
Employee compensation	$	123,675	$	129,068	$	-5,393	-4%
Management consulting services	$	142,700	$	179,100	$	-36,400	-20%
Professional fees	$	142,000	$	131,328	$	10,672	8%
Investor relations	$	58,752	$	145,968	$	-87,216	-60%
Filing and listing fees	$	63,842	$	64,958	$	-1,116	-2%
Ohio management and administration	$	18,075	$	47,490	$	-29,415	-62%
Insurance	$	49,630	$	53,645	$	-4,015	-7%
Computer software and support	$	19,500	$	21,212	$	-1,712	-8%
Office and storage	$	47,100	$	46,327	$	773	2%
General and administrative - other	$	13,930	$	17,428	$	-3,498	-20%
	$	679,204	$	836,524	$	-157,320	-19%

The Company has categorized its administrative expenses as described below.

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

Management Consulting Fees – These fees are related to fees to a professional corporation of a senior executive for services related to the overall management of the Company including some administrative costs. There was a 20% reduction in charges in 2019 compared to 2018. This executive has consistently invested in all the private placements of the Company, approximating the fees paid.

Professional Fees – Fees consist of legal fees, reserve engineering, audit and accounting services in Canada, as well as fees for engineering, geology and land consulting in Ohio, USA. Professional fees are 8% higher in 2019 due partially to increased legal fees in Ohio

Investor Relations – Are related to costs incurred to raise capital for the drilling opportunities in Ohio. Expenses relate to travel, investor conferences, and use of investment consultants throughout North America. There was a conscious effort to reduce these costs year over year with less travel and fewer conferences etc. resulting in a 60% decrease.

Filing and Listing Costs – These costs are directly associated with costs of being a public company in Canada. They include annual fees and charges from stock exchanges in Canada and New York, provincial securities commissions, and a stock transfer agent. The fees remained consistent year over year.

Ohio Management and Administrative Expenses – Marksmen’s business activities in 2019 continue to be focused on developing its oil and gas operations in Ohio. In 2019 there was less Ohio based management charges direct to administration versus capital plus less travel all resulting in a 62% decrease.

Insurance – In 2019 Marksmen reorganized its insurance coverage. The Company moved from one sole provider and it now has three providers, one in the USA and two in Canada. The overall costs are approximately 7% less in 2019 and we anticipate further reductions in 2020. The insurance coverage in Canada and the USA includes director and officer, property and general liability as well as control of well insurance.

Computer software and Support – includes fees charged by the Company's accounting software provider plus technical support for computer systems. The costs in 2019 were 8% less compared to 2018.

Office and Storage – the cost of office space remained constant year over year.

General and Administrative Expenses – These expenses are normal day to day costs of running the Company. These expenditures were 20% less in 2019 compared to 2018.

Selected Other Expenses

Interest Expense – During the year ended December 31, 2019 the Company paid interest related to a secured debenture of $150,000 (2018-$150,000).

Depletion – In 2019 depletion totaled $188,938 or $25.62 per barrel of oil produced compared to $322,850 or $22.54 per barrel of oil produced in 2018.

Impairment – The Company exploration and evaluation assets were assessed for impairment prior to their transfer to property and equipment, and it was determined that the $2,777,427 of the carrying amount attributable to the Leaman #1 horizontal well drilled in 2018 and tested and put on production in 2019, was impaired and accordingly, was expensed to the consolidated statement of net loss and comprehensive loss as an exploration and evaluation impairment.

Financial Position – Highlights

	Year Ended Dec. 31, 2019	Year Ended Dec. 31, 2018	Change	**% Change**
Assets				
Current assets	**$ 204,590**	$ 258,604	$ (54,014)	**-21%**
Exploration and evaluation assets	**$ 1,901,306**	$ 4,545,574	$ (2,644,268)	**-58%**
Property and equipment	**$ 2,005,697**	$ 2,076,848	$ (71,151)	**-3%**
	$ 4,111,593	$ 6,881,026	$ (2,769,433)	**-40%**
Liabilities				
Accounts payable and accruals	**$ 559,673**	$ 602,952	$ (43,279)	**-7%**
Secured debentures	**$ 1,227,400**	$ 1,250,000	$ (22,600)	**-2%**
Decommissioning liabilities	**$ 445,594**	$ 389,000	$ 56,594	**15%**
	$ 2,232,667	$ 2,241,952	$ (9,285)	**0%**
Equity				
Share capital, contributed surplus & other	**$ 26,728,727**	$ 25,609,485	$ 1,119,242	**4%**
Deficit	**$ (24,849,801)**	$ (20,970,411)	$ (3,879,390)	**18%**
	$ 1,878,926	$ 4,639,074	$ (2,760,148)	**-59%**
Total liabilities and equity	**$ 4,111,593**	$ 6,881,026	$ (2,769,433)	**-40%**

Assets – decreased by $2,769,433 or 40% compared to the year ended December 31, 2018 primarily due to impairment of exploration assets that decreased by 58% related to the Leaman #1 horizontal well.

Liabilities – remained basically the same in 2019 compared to 2018.

Equity – In the year ended December 31, 2019, the Company's share capital and contributed surplus increased by $1,119,242 or 4% compared to 2018 due to funds raised in private placements. The deficit increased by the amount of the net loss of the Corporation of $3,879,390 of which $2,777,427 was impairment of exploration and evaluation assets.

Capital Expenditures

Exploration and evaluation assets (E&E)		Year End Dec. 31, 2019		Year End Dec. 31, 2018
Balance, beginning of year	$	**4,545,574**	$	1,736,033
Expenditures on exploration and evaluation	$	**426,464**	$	2,693,897
Transfer to property and equipment	$	**(155,466)**	$	-
Impairment of exploration and evaluation assets	$	**(2,777,427)**	$	-
Foreign currency adjustment	$	**(137,838)**	$	115,644
Balance, end of year	$	**1,901,307**	$	4,545,574

Impairment - E&E assets consist of the Company's exploration projects that are pending the determination of technological feasibility and commercial viability. These assets were assessed for impairment prior to their transfer to property and equipment, and it was determined that the $2,777,427 of the carrying amount to be transferred was impaired and accordingly, was expensed to the consolidated statement of net loss and comprehensive loss as an exploration and evaluation impairment.

Petroleum and natural gas assets		Year End Dec. 31, 2019		Year End Dec. 31, 2018
Balance beginning of year	$	**4,089,833**	$	3,803,559
Disposals	$	-	$	(21,985)
Transfers from exploration and evaluation	$	**155,466**		
Change in estimate of decommissioning liabilities	$	**57,819**	$	21,395
Foreign currency adjustment	$	**(170,995)**	$	286,864
Balance, end of year (before depletion)	$	**4,132,123**	$	4,089,833
Accumulated depletion	$	**(2,127,553)**	$	(2,014,512)
Net carrying amount	$	**2,004,570**	$	2,075,321

There were $155,466 of exploration and evaluation assets transferred into petroleum and natural gas assets.

Related Legal Matter and Joint Venture Audit – Marksmen has had a number of on-going business and technical disagreements regarding the management and performance of HHE, the operator of the Leaman #1 horizontal well. Therefore, in mid 2019, the Company withheld certain capital payments pending the conclusion of a joint venture audit. The amount withheld was approximately $180,000 USD or 7.7 % of the total billed to Marksmen of $2,300,000. The total capex costs are 2.6 times the original budget/AFE. Marksmen did commence the audit in late 2019 and found a number of concerning issues. Before the joint venture audit was complete the Operator filed a statement of claim against Marksmen in Ohio courts for the amount outstanding. Marksmen counter claimed for substantially more, greater than $1,000,000, when considering the audit findings and performance issues. The legal process is moving forward with a court required mediation conference planned for June 12, 2020. The mediation is not binding, and further legal processes could follow.

Marksmen has recorded the full amount claimed by HHE as a payable in our financial statements pending a resolution.

Oil and Gas Reserves

Marksmen's oil and gas reserves have been evaluated at December 31, 2019 in a report prepared by Pristine Energy Ltd. in accordance with National Instrument 51-101 ("NI 51-101"). The reserves report was presented to the reserves committee and approved March 26, 2020. 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

Decommissioning Liabilities

The Company's business activities require an estimate for the future cost of decommissioning and reclaiming well sites and/or facilities at the end of their life cycle. The Company measures these liabilities at the present value, using estimates that include costs to abandon, risk-free rate and expected timing of the abandonments. The Company has estimated the net present value of the decommissioning liabilities to be $445,594 as at December 31, 2019 (2018 - $389,000).

The Company has completed the abandonment of all but one well of its Canadian petroleum and natural gas assets. Reclamation of these assets will continue in 2019.
In May 2020, the federal government, in conjunction with the Department of Energy in Alberta announced a multi-faceted, billion-dollar assistance package to facility job creation in the western Canadian oil and gas industry. Part of the funds are earmarked specifically to assist companies in abandoning and reclaiming oil and gas wells. Marksmen has to applied to participate in this program.

Secured Debenture

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

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

On January 29, 2019, the Company, by agreement, replaced the previous debentures with one in the amount of $1,250,000 at the same interest rate per annum and payment terms and included 1,800,000 share purchase warrants issued for $0.24 if exercised before April 30, 2019 and at $0.22 thereafter. The debenture expiry date was December 31, 2019. On June 28, 2019, the Company again by agreement, revised the debenture, of $1,250,000 with the same interest and payment dates but with an extended maturity date to December 31, 2020. It included 1,800,000 share purchase warrants at $0.10. The Company fulfilled all interest payment requirements.

Share Capital

For a detailed explanation of the transactions that took place in 2019 and 2018 for common shares, warrants, broker warrants and stock options please refer to Note 11 - Share Capital in Marksmen's consolidated financial statements for the year ended December 31, 2019. The chart below is a summary of share capital and includes balances as of May 28, 2020.

	Common Shares	Stock Options	Warrants	Broker Warrants
Balance December 31, 2018	**96,736,643**	**9,669,000**	**7,573,623**	**133,547**
Shares issued - private placements	15,554,000	-	10,024,000	-
Stock options exercised	35,000	(35,000)	-	-
Stock options granted	-	4,080,000	-	-
Stock options forfeited		(200,000)		
Stock options expried	-	(2,440,000)	-	-
Warrants exercised	800,000	-	(800,000)	-
Warrants issued - debenture	-	-	1,800,000	-
Warrants expired	-	-	(4,231,917)	-
Broker warrants issued	-	-	-	60,000
Broker warrants exercised	111,947	-	-	(111,947)
Broker warrants expired	-	-	-	(21,600)
Balance December 31, 2019	**113,237,590**	**11,074,000**	**14,365,706**	**60,000**
Private Placement Q1, 2020	3,880,280	-	3,880,280	32,000
Stock options Expired April 4, 2020		(550,000)		
Warrants expired April 24, 2020	-	-	(1,729,205)	-
Balance May 28, 2020	**117,117,870**	**10,524,000**	**16,516,781**	**92,000**

Income Tax and Tax Pools

Tax expense differs from that which would be expected from applying the combined effective Canadian federal and provincial corporate tax rates of 26.50% (2018 – 27.00%) to income before taxes as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Net loss before taxes	(3,879,390)	(725,097)
Combined federal and provincial tax rate	26.5%	27%
Computed expected tax	(1,028,038)	(195,776)
Tax rate differential between Canada and US	156,910	-
Share-based payments	67,861	88,566
Change in estimates and other	475,093	(103,627)
Deferred tax asset not recognized	328,174	210,837
	-	-

The statutory tax rated declined from 27% to 26.5% due to a reduction in the Alberta corporate tax rate on July 1, 2019.

Details of deferred tax assets (liabilities) are as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Oil and gas properties – US	(800,434)	(1,223,388)
Debentures - Canada	(5,198)	-
Decommissioning liability - US	(46,030)	-
Non-capital loss available for future periods – Canada	5,198	-
Non-capital loss available for future periods - US	846,464	1,223,388
Net deferred tax asset (liability)	-	-

Details of the unrecognized deductible temporary differences are as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2018
Decommissioning tax assets (liabilities)	445,592	389,100
Capital losses - Canada	2,059,000	2,059,000
Non-capital losses – Canada	8,309,441	7,699,493
Non-capital losses - US	2,057,264	-
Oil and Gas properties - Canada	846,416	615,893
Share issue costs - Canada	71,509	67,040
Other – Canada	108,766	-
Unrecognized deductible temporary differences	13,897,987	10,830,526

At this stage of the Company's development, it cannot be reasonably estimated that there will be future taxable profits, accordingly there were no deferred income tax assets recognized. The accumulated non-capital loss carry forwards expire between 2029 and 2039.

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 year ended December 31, 2019	
	Canada	Unites States	Total
Petroleum and natural gas sales	-	542,388	542,388
Depletion and depreciation	401	188,537	188,938
Net loss and comprehensive loss (income)	1,026,489	2,852,901	3,879,390
Exploration and evaluation assets	-	1,901,306	1,901,306
Property, plant and equipment	1,126	2,004,570	2,005,697
Total liabilities	1,782,062	450,605	2,232,667

		For the year ended December 31, 2018	
	Canada	Unites States	Total
Petroleum and natural gas sales	-	1,190,013	1,190,013
Depletion and depreciation	599	322,251	322,850
Net loss and comprehensive loss (income)	989,506	(264,409)	725,097
Exploration and evaluation assets	-	4,545,574	4,545,574
Property, plant and equipment	1,527	2,075,321	2,076,848
Total liabilities	1,661,481	580,471	2,241,952

Subsequent Events

On March 20, 2020, the Company closed a private placement issuing 3,880,280 units (the "Units") at a price of $0.05 per Unit. Each Unit was comprised of one common share and one share purchase warrant (the "Warrant"). Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.10 for a period of 24 months from the date of closing. In connection with the private placement, the Company paid a cash commission of $1,600 and issued 32,000 broker warrants. Each broker warrant entitles the holder thereof to purchase one common share at a price of $0.10 per share expiring 24 months from the date of closing.

Subsequent to year-end, significant declines in crude oil spot prices and in stock markets have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide oil prices. The impairment tests for the Company's oil and gas assets are based on fair value less costs of disposal. As required by IFRS, we have not reflected these subsequent conditions in the recoverable amount estimates of our oil and gas assets as at December 31, 2019. Impairment indicators for the Company's oil and gas assets could exist subsequent to year-end, if current conditions persist. Management continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in our impairment indicator analysis and for impairment tests during 2020, if such tests are required.

On April 17, 2020 Marksmen applied for a loan known as the Canada Emergency Business Account (CEBA), made available by the federal government due to the Covid-19 pandemic. Our application was successful, and funds were received on April 22, 2020. There is no interest on the loan if it is repaid on or before December 31, 2022 and if repaid by this date there will be a loan forgiveness of 25% or $10,000. Any remaining balances after this date will be converted to a three-year term loan with a fixed interest rate of 5% per annum. No payment is required until January 31, 2023 with all outstanding balances plus accrued interest required to be paid in full by December 31, 2025. The Canadian government has not required any security for this loan and it therefore does not contravene the Company's general security agreement in place with the holder of our Secured Debenture.

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.

On December 31, 2019, included in deposits and prepaid expenses is an amount of $41,243 on deposit with the AER associated with the Company's operated wells in Alberta (2018 - $40,427). The AER has indicated that a higher deposit may be required. However, since all wells are abandoned or shut-in and in light of certain changes to government programs that will potentially assist Marksmen in completing the abandonments and reclamation of its wells in Albert Marksmen has decided to continue negotiations with the AER.

The Surface Rights Board ("SRB") – The Surface Rights Board ("SRB") is a quasi-judicial tribunal in Alberta that has a dispute resolution process to resolve issues of non-payment of surface leases to landowners by oil and gas companies. On September 18, 2018, Marksmen has been served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections with a balance at December 31, 2019 of $97,848 related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010.

The Company has an Assignment of Surface Rights agreement with the third-party, effective August 1, 2010 whereby the responsibility for the payment of surface leases is with the third party. The third-party does not dispute this agreement in any way and agrees they are responsible for the payment of surface leases.

Upon the sale of the properties, the Company did agree to retain a nominal 1% working interest in the sold properties and act as the operator of the wells on the behalf of the third-party company. The Company's position on this judgement is that the assignment of Surface Rights agreements takes precedent while the SRB asserts that the provincial laws governing the SRB places the responsibility on the operator as defined by Alberta law governing SRB and the Alberta Energy Regulator.

On April 4, 2019 SRB ruled and agrees that the third-party company is also an Operator, but they did not agree that the Company should be removed as an Operator. Therefore, the Company has accrued for these surface rights obligations. Although the third-party company has agreed they are responsible for the surface payments, their ability to reimburse the Company for the costs is unlikely, and accordingly, the accrued payment has been recorded as a bad debt item in the statement of loss and comprehensive loss. The Company remains dissatisfied with SRB's position and will continue discussions regarding this matter with the AER, the Alberta Department of Energy, and the SRB.

Related Party Transactions

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

A total of $171,957 (2018 - $282,786) in consulting fees and $30,000 (2018 - $30,000) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to Directors of the Company and/or Directors of Marksmen Energy USA, Inc. of which $21,713 (2018 - $68,612) were capitalized as E&E costs. The Director of Marksmen consistently participates in private placements, exercising of warrants and stock options approximating the total of his fees charged for both 2019 and 2018.

Aggregate legal fees of $62,056 (2018 - $54,665) were charged by a law firm in which a director of the Company is a partner, of which $35,637 (2018 - $34,359) were expensed as general and administrative expenses and $26,419 (2018 - $20,307) were charged to share capital as share issue costs.

As at December 31, 2019, the Company has accounts payable and accrued liabilities totaling $39,755 (2018 – $43,232) 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 of Chief Executive Officer and Chief Financial Officer.

	As at December 31, 2019	As at December 31, 2018
Compensation	261,957	372,786
Share based payments	100,246	161,851
TOTAL	**362,203**	**534,637**

A portion of the key management compensation of $165,324 (2018 - $282,786) 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.

Financial Risk Management

Going Concern – At December 31, 2019, the Company had not yet achieved profitable operations, had accumulated a deficit of $24,849,801 (December 31, 2018 - $20,970,411) a negative working capital of $1,582,483 (December 31, 2018 - $1,594,348), and may incur further losses in the development of its business. The ability to continue as a going concern is dependent on global commodity markets, obtaining continued financial support by completing public equity financing, continuing to be able to renegotiate the secured debentures that mature on December 31, 2020, and by drilling additional oil and gas wells that will increase cash-flow and oil and gas reserves. The timing and extent of forecast capital and operating expenditures is based on the Company's 2020 budget and on management's estimate of expenditures expected to be incurred beyond 2020.

The Company successfully completed 3 private placements during the year ended December 31, 2019. To achieve its intended development, management is committed to raising additional capital and realizing additional cash flows from drilling activities. Subsequent to December 31, 2019, the Company successfully completed one private placement for gross proceeds of $194,014. Additional equity financing is subject to volatile financial markets and economic conditions.

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

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

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

As at December 31, 2019, the Company had cash of $113,203 (2018 - $107,685), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at December 31, 2019, the Company's accounts receivable consisted of $15,081 receivable from oil and natural gas marketing companies (2018 - $65,822), $2,752 receivable from joint venture working interest owners (2018 - $11,155) and $11,540 related to goods and service tax owing from the Government of Canada (2018 - $11,802). As at December 31, 2019, 39% (2018 - 74%) of the Company's receivable are held with one oil and natural gas marketing company and is therefore subject to concentration risk. Receivables from oil and natural gas marketing companies are typically collected within one month of delivery of product and historically the Company has not experienced collection issues with its marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued and cash call receivables are usually provided to the operator at least 30 days in advance of drilling. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner pre-approval of significant capital expenditures.

In certain circumstances, the Company may request an operating advance, cash call a partner in advance of capital expenditures being incurred or revoke a non-operating working interest owners take-in-kind rights pursuant to joint operating agreement provisions. However, the receivables are from participants in the oil and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling.

In addition, further risk exists with joint ventures as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint ventures; however, the Company does have the ability to withhold production from joint ventures in the event of non-payment.

Payment terms with customers vary by contract. Standard payment terms are 30 days from invoice date. The Company's aged trade and accrued accounts receivable at December 31, 2019 and 2018, excluding any impaired accounts, are as follows:

Days outstanding	As at December 31, 2019	As at December 31, 2018
0-30 days	17,833	76,977
31-60 days	11,540	11,802
61-90 days	-	-
Greater than 90 days	-	-
Trade and other receivables, net of allowance	**29,373**	**88,779**

The Company assessed the credit loss risk as $nil based on historical data and there was no allowance recorded against the accounts receivable.

Liquidity risk – is the risk that the Company will not be able to meet its financial obligations as they fall due. At December 31, 2019, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of $559,673 (2018 - $602,952), which are all due over the next twelve months, and the secured debentures balance of $1,227,400 (note 10), which matures on December 31, 2020. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities.

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

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

Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks. If in the future management determines market risk warrants the use of financial derivatives or physical delivery sales contracts any such transactions would be approved by the Board of Directors.

Commodity price risk - is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as oil and natural gas prices are impacted by world economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when deemed appropriate.

The Company did not have any commodity price contracts in place as at or during the years ended December 31, 2019 and 2018. A 20% change is price per bbl. in commodity process would impact petroleum and natural gas sales by approximately $94,000 (December 31, 2018 - $207,000).

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

As at December 31, 2019 and 2018, the Company had no forward exchange rate contracts in place.

The Company had the following financial instruments denominated in USD:

	December 31, 2019	December 31, 2018
Cash	106,926	97,313
Trade and other receivables	17,833	76,977
Accounts payable and accrued liabilities	239,509	423,709

Interest rate risk – is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have short or long-term interest-bearing debt with variable interest rates and therefore is only exposed to interest rate risk through its cash holdings. The Company's secured debentures bear a fixed interest rate (note 10).

The Company has no interest rate swaps or financial contracts in place as at or during the years ended December 31, 2019 and 2018.

Outlook

The primary business of Marksmen is the acquisition, development and production of oil properties located in Ohio, USA. Marksmen and it's Ohio based technical team have been active in Ohio since 2012.

In December of 2018 the Company completed its first Clinton Sandstone horizontal well in Hocking County, Ohio, operated by Hocking Hills Energy and Well Services LLC. The well is currently being produced but is under-forming and the Operator is developing a workover plan to improve production. Marksmen may agree or not, to participate in this workover and our decision potentially will be impacted by a legal dispute between HHE and Marksmen – *see Related Legal Matter and Joint Venture Audit*.

In 2019 Marksmen executed a Joint Operating Agreement ("JOA") with PEP Drilling LLC., of Ohio, to recomplete up to 40 wells in the Clinton Sandstone formation, that was previously bypassed and not produced. The wells are located in Portage County, Ohio. Marksmen has chosen the first four wells to recomplete with the first well currently being completed. All of these wells come with all of the necessary infrastructure including surface and downhole equipment. In the JOA, Marksmen also has the right of first refusal to participate in the drilling of other Clinton Sandstone wells on PEP lands.

In addition to well recompletes, Marksmen has opportunities to improve or optimize production of some of its wells in Pickaway County and the potential to drill offset wells in Pickaway County including one or more offset wells to our best well, Davis-Holbrook.

In order to complete capital projects, the Company will consider additional equity by way of private placements, other financial instruments and the use of funds generated from operations. Capital projects will be undertaken as funding is available.

The Covid-19 pandemic has impacted how we all work and live. In Ohio, the oil and gas industry is considered an essential service so operations and capital projects continue in 2020 but many businesses are impacted resulting in a less efficient environment.

Other

Additional information relating to the Company is available on SEDAR at www.sedar.com or email ajnesbitt@marksmenenergy.com. Marksmen Energy Inc. is listed on the TSX Venture Exchange under the symbol "MAH" and on the OTCQB Venture Marketplace under the symbol MKSEF.