



TSX Venture – MAH

New York OTCQB Venture Marketplace – MKSEF

MANAGEMENT'S DISCUSSION AND ANALYSIS

Q2 Report

Three and Six Months ended June 30, 2021

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 three and six months ended June 30, 2021, and was prepared with information available up to August 27, 2021, and should be read in conjunction with Marksmen Energy Inc.'s consolidated audited financial statements for the year ended, December 31, 2020. All values in this MD&A are expressed in Canadian currency ("CAD") unless specifically notated as American 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 the 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 measure that is used by the Company, but does 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 – is not a standardized measurement in accordance with IFRS. Operating netback is calculated by deducting royalties and production expenses, including transportation costs, from revenues. It is also calculated on a boe basis. Operating netback is useful in calculating field performance for internal management purposes.

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.

Covid-19 Pandemic

The COVID-19 pandemic has negatively impacted global economic conditions and has impacted the Corporation’s financial results and stock price. It has resulted in a prolonged period of travel, commercial and other similar restrictions affecting the Corporation’s personnel, contractors, and suppliers. In both Canada and the USA, effective vaccines are currently being administered based on plans outlined by each province or state (more quickly in the USA). In Ohio, the general economy is now beginning to open-up due to higher rates of vaccination. Service providers of the oil and gas industry in Ohio are struggling to find staff and other resources to get their businesses ramped back up.

Annual Information Form (“AIF”)

Marksman has prepared an AIF for the year ended December 31, 2020. The AIF was filed on SEDAR in conjunction with the Company’s 2020 year-end filings on April 29, 2021.

Oil and Gas Reserves

Marksman’s oil and gas reserves were evaluated at December 31, 2020, in a report prepared by Trimble Engineering Associates Ltd. in accordance with National Instrument 51-101 (“NI 51-101”). The reserves report was presented to the reserves committee and approved on April 8, 2021, and filed in conjunction with the Company’s 2020 year-end filings on April 29, 2021.

Introduction

Marksman Energy Inc. is involved in the acquisition, exploration, development and production of oil and gas properties, primarily located in Ohio, USA.

Low commodity prices in 2020 negatively impacted the financial results for most oil and gas companies. The price of West Texas Intermediate (“WTI”) oil dipped below \$20 per barrel in the second quarter and averaged approximately \$39 for the year. In 2021 the WTI oil price has improved to approximately \$59 per barrel in Q1 and \$67 in Q2 and is currently in the \$65 to \$67 per barrel range. This has resulted in a resurgence of interest in drilling oil and gas wells both with our existing partners and with other oil and gas companies in Ohio.

The Covid-19 Pandemic plus low commodity prices did reduce service company’s operational readiness and availability for both manpower and equipment in central and western Ohio. This is especially true for shallow to mid-depth drilling and service rigs. This continues to result in slower progress on drilling new wells and even minor well workovers.

In August of 2021, Marksman drilled an offset well, Davis Holbrook #2 (“DH2”) to Marksman’s best well, Davis Holbrook #1 (“DH1”) located in Pickaway County, Ohio. DH2 was drilled to a depth of 2,479 feet, has been determined to be productive and has had production casing run and cemented. It will be completed and put on production in the next two to three weeks when a service rig is available.

Marksman is pleased to see new drilling, recompletion and optimization opportunities that will increase production and oil and gas reserves. 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.

Quarterly Financial Information

The following is a summary of selected quarterly information:

Quarterly Information	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Oil Production - bbls	1,918	1,596	2,337	2,018	1,060	1,327	824	2,410
Natural Gas - boe (6 mcf = 1 bbl)	-	94	412	-	-	-	-	-
Boe	1,918	1,690	2,749	2,018	1,060	1,327	824	2,410
Production - boe/day	21.3	18.8	29.9	21.9	11.6	14.7	9.0	26.2
Revenue - Petroleum	\$ 156,269	\$ 113,617	\$ 136,369	\$ 107,613	\$ 43,389	\$ 81,393	\$ 59,295	\$ 175,352
Royalties	\$ (21,763)	\$ (14,842)	\$ (17,338)	\$ (15,045)	\$ (5,870)	\$ (10,781)	\$ (7,910)	\$ (22,888)
Operating Costs (excluding workovers)	\$ (54,623)	\$ (28,366)	\$ (29,277)	\$ (18,052)	\$ (12,727)	\$ (12,203)	\$ (35,283)	\$ (24,360)
Workovers / extraordinary expenses	\$ (13,520)	\$ (60,520)	\$ (20,644)	\$ -	\$ -	\$ -	\$ (54,983)	\$ -
Income (loss) from operations	\$ 66,363	\$ 9,889	\$ 69,110	\$ 74,516	\$ 24,792	\$ 58,409	\$ (38,881)	\$ 128,104
(Impairment) / recovery	\$ -	\$ -	\$ (1,231,152)	\$ -	\$ 25,972	\$ -	\$ (2,777,427)	\$ -
Net profit (Loss)	\$ (158,381)	\$ (174,289)	\$ (1,187,233)	\$ (107,115)	\$ 20,767	\$ (359,908)	\$ (3,230,836)	\$ (164,562)
Total assets	\$ 3,007,118	\$ 3,235,092	\$ 2,941,520	\$ 4,147,678	\$ 4,285,644	\$ 4,238,388	\$ 4,111,593	\$ 6,898,200
Total liabilities	\$ 1,813,526	\$ 1,965,649	\$ 1,999,766	\$ 1,987,832	\$ 2,321,139	\$ 2,271,287	\$ 2,232,667	\$ 2,114,862
Total shareholder's equity	\$ 1,193,592	\$ 1,269,443	\$ 941,754	\$ 2,159,846	\$ 1,964,505	\$ 2,012,101	\$ 1,878,926	\$ 4,783,338
Total liabilities and equity	\$ 3,007,118	\$ 3,235,092	\$ 2,941,520	\$ 4,147,678	\$ 4,285,644	\$ 4,283,388	\$ 4,111,593	\$ 6,898,200
Common shares outstanding	140,543,870	139,234,870	126,427,870	124,002,870	117,117,870	117,117,870	113,237,590	107,993,590

Operating Netback – Ohio USA in \$USD

\$USD	Three Months Ended				Six Months Ended			
	June 30 2021	June 30 2020	Change	% Change	June 30 2021	June 30 2020	Change	% Change
Oil and Gas Production								
Oil - bbls	1,918	1,061	857	81	3,510	2,387	1,123	47
Natural Gas - boe (6 mcf = 1 bbl)	-	-	-	-	94	-	94	
Boe	1,918	1,061	857	81	3,604	2,387	1,217	51
Boe /day	21.3	11.8	9.5	81	20.0	13.3	6.8	51
Operations								
Revenue	\$ 126,683	\$ 30,889	\$ 95,794	310	\$ 216,428	\$ 91,409	\$ 125,019	137
Royalties	\$ (17,630)	\$ (4,181)	\$ (13,449)	322	\$ (29,354)	\$ (12,197)	\$ (17,157)	141
Operating Costs (before workovers)	\$ (9,832)	\$ (6,947)	\$ (2,885)	42	\$ (32,143)	\$ (15,753)	\$ (16,390)	104
Income from operations (before workovers)	\$ 99,221	\$ 19,761	\$ 79,460	402	\$ 154,931	\$ 63,459	\$ 91,472	144
Workovers and other extraordinary costs	\$ (43,421)	\$ -	\$ (43,421)		\$ (91,036)	\$ -	\$ (91,036)	
Income from operations (after workovers)	\$ 55,800	\$ 19,761	\$ 36,039	182	\$ 63,895	\$ 63,459	\$ 436	1
Revenue /boe	\$ 66.05	\$ 29.11	\$ 36.94	127	\$ 60.05	\$ 38.29	\$ 21.76	57
Royalties / boe	\$ (9.19)	\$ (3.94)	\$ (5.25)	133	\$ (8.14)	\$ (5.11)	\$ (3.04)	59
Operating costs before workovers / boe	\$ (5.13)	\$ (6.55)	\$ 1.42	(22)	\$ (8.92)	\$ (6.60)	\$ (2.32)	35
Operating netback / boe (before workovers)	\$ 51.73	\$ 18.62	\$ 33.11	178	\$ 42.99	\$ 26.59	\$ 16.40	62
Operating netback / boe (after workovers)	\$ 29.09	\$ 18.62	\$ 10.47	56	\$ 17.73	\$ 26.59	\$ (8.86)	(33)

Operations – The total production in the second quarter of 2021 was 1,918 boe an increase of 81 percent over the same period in 2020 and the first six months of 2021 was 3,510 boe an increase of 47 percent over the same period in 2020. Production improvements were from a recompleted well in Portage County, Ohio put on production in July 2020; two shut-in wells brought back on production in Pickaway County and a workover of the DH1 well.

Revenue – Increased by \$125,019 in the six-month period ended June 30, 2021, compared to the same period in 2020, as a result of improved production plus oil commodity prices increasing from an average of \$38 in the first six-months of 2020 to \$60 per barrel in the same period in 2021. Revenue is paid to Marksmen directly by the oil marketing companies and is based on their monthly pricing schedules derived from the daily posted West Texas Intermediate oil (“WTI”) prices.

Operating Expenses – during the first six months of 2021, the routine operating expenses were \$16,390 higher compared to the same period of 2020. The increase is due to three additional wells on production compared to the same period in 2020.

Workovers and other extraordinary costs – In 2020, Marksmen’s water disposal well became inoperable and required extensive downhole remedial work in Q1 of 2021 totaling approximately \$47,000. In Q2 of 2021 the water disposal line to the disposal facility failed resulting in repair costs and environmental clean-up of brine water leakage at a cost of approximately \$32,000. There will be additional costs of approximately \$10,000 to complete this operation in Q3 of 2021. Also, there were minor workovers at two wells in Pickaway County totalling approximately \$12,000. In all, these extraordinary items totalled \$91,036 in the first six months of 2021.

Well Information

In 2020, Marksmen participated in the recompleting of a well at Portage County, Ohio and it was put on production in June. One, non-economic well (due to high operating costs for water disposal), in Hocking County, was converted from a working interest to an overriding royalty interest well under the terms of a settlement agreement. Two wells in Pickaway County that were shut-in were brought back on production in December of 2020.

Well Information	Q2 2021		Q2 2020	
	Wells	Net Marksmen %	Wells	Net Marksmen %
Production testing	-	-	1.0	60.0
Overriding royalty Interest	1.0	3.0	-	-
Producing wells	5.0	71.0	2.0	60.0
Water injection well	1.0	100.0	1.0	100.0
Shut-in wells	-	-	2.0	75.0

Production Improvement and Optimization Plans for 2021

- The DH2 well has been drilled to a total depth of 2,479 feet on August 19, 2021. Production casing has been set and cemented, and it is now awaiting a service rig to complete the well and put it on production in the next two to three weeks.
- In June of 2021, a minor workover at the DH1 well that included installing a larger bottom hole pump has increased production by approximately 10 barrels of oil per day.
- The Strittmatter #1 well has an upper zone that has not been completed and discussions are on-going with our partner to complete this zone. Estimates of incremental production range from 5 to 10 barrels per day and the cost of completing this new zone is \$15,000.
- In addition to one or two more Davis Holbrook offset wells, there are over 20 potential drilling locations on offset locations to our existing wells or on land covered by the Company’s existing proprietary 3D seismic.
- Marksmen has up to 40 recompleting drilling locations available to it in Portage County, Ohio.
- With improved oil prices Marksmen is currently reviewing in detail a Trenton Black River prospect in SE Ohio.

Commodity Prices

Marksman is paid from oil marketing companies, ARG and Ergon, based on their pricing schedules derived from the daily posted West Texas Intermediary ("WTI") oil prices. Natural gas is paid based on daily prices posted by Henry Hub. There has been a positive improvement of oil and gas prices to date in 2021.

	Q1		Q2		Q3		Q4		Q1		Q2	
	2020		2020		2020		2020		2021		2021	
WTI	\$	45.76	\$	27.81	\$	40.89	\$	42.45	\$	59.29	\$	67.05
Henry Hub	\$	1.91	\$	1.71	\$	2.00	\$	2.53	\$	3.56	\$	3.33

Alberta

Marksman's wells at Alder Flats have been shut-in since 2010. Of these six wells, one well was abandoned at the time of drilling and four other wells were abandoned in August 2015. Equipment salvage operations from the abandoned wells was completed in 2018.

There were \$3,425 of operating costs related to surface leases charged to wells in Alder Flats, Alberta during the first six months of 2021.

In May 2020, the federal government, in conjunction with the Department of Energy in Alberta announced a site reclamation program ("SRP") to facilitate job creation in the western Canadian oil and gas industry. Marksman has applied to participate in this program and has been approved for approximately \$242,000 in SRP funding. At Alder Flats, work on the abandonment of a well under this program was partially completed by our SRP contractor in the first quarter and \$135,000 of the Company's liabilities were settled through this program. The abandonment of this well was completed in Q2 of 2021. Other abandonments and reclamation projects under this program will take place once harvest is completed in the Penhold area.

Reclamation work of the Alder Flats wells is expected to continue in 2021 as funds are available or possibly via another phase of funding under the SRP program.

Operating Netback in \$CAD

\$CAD	Three Months Ended				Six Months Ended			
	June 30 2021	June 30 2020	Change	% Change	June 30 2021	June 30 2020	Change	% Change
Oil and Gas Production								
Oil - bbls	1,918	1,061	857	81	3,510	2,387	1,123	47
Natural Gas - boe (6 mcf = 1 bbl)	-	-	-	-	94	-	94	188
Boe	1,918	1,061	857	81	3,604	2,387	1,217	235
Boe /day	21.3	11.8			20.0	26.5		
Operations								
Revenue	\$ 156,269	\$ 43,389	\$ 112,880	260	\$ 269,886	\$ 124,782	\$ 145,104	116
Royalties	\$ (21,763)	\$ (5,870)	\$ (15,893)	271	\$ (36,605)	\$ (16,591)	\$ (20,014)	121
Operating Costs (before workovers)	\$ (12,186)	\$ (12,727)	\$ 541	(4)	\$ (44,199)	\$ (24,930)	\$ (19,269)	77
Income From Operations before workovers	\$ 122,320	\$ 24,792	\$ 97,528	393	\$ 189,082	\$ 83,261	\$ 105,821	127
Workovers and other extraordinary costs	\$ (55,957)	\$ -	\$ (55,957)		\$ (112,830)	\$ -	\$ (112,830)	
Income from Operations after workovers	\$ 66,363	\$ 24,792	\$ 41,571	168	\$ 76,252	\$ 83,261	\$ (7,009)	(8)
Revenue /boe	\$ 81.47	\$ 40.89	\$ 40.58	99	\$ 74.89	\$ 52.28	\$ 22.61	43
Royalties / boe	\$ (11.35)	\$ (5.53)	\$ (5.81)	105	\$ (10.16)	\$ (6.95)	\$ (3.21)	46
Operating costs before workovers / boe	\$ (6.35)	\$ (12.00)	\$ 5.64	(47)	\$ (12.26)	\$ (10.44)	\$ (1.82)	17
Operating netback / boe (before workovers)	\$ 63.77	\$ 23.37	\$ 40.41	173	\$ 52.46	\$ 34.88	\$ 17.58	50
Operating netback / boe (after workovers)	\$ 34.60	\$ 23.37	\$ 11.23	48	\$ 21.16	\$ 34.88	\$ (13.72)	(39)

General and Administrative Expenses

	Three Months Ended				Six Months Ended			
	Q2 2021	Q2 2020	Change	% Change	Q2 2021	Q2 2020	Change	% Change
Employee compensation	\$ 31,295	\$ 26,720	\$ 4,575	-17%	\$ 61,138	\$ 55,674	\$ 5,464	-10%
Management consulting services	\$ 23,700	\$ 37,500	\$ (13,800)	37%	\$ 62,700	\$ 62,800	\$ (100)	0%
Professional fees	\$ 11,998	\$ 28,976	\$ (16,978)	59%	\$ 20,068	\$ 35,476	\$ (15,408)	43%
Investor relations	\$ 1,188	\$ 3,207	\$ (2,019)	63%	\$ 4,051	\$ 6,221	\$ (2,170)	35%
Filing and listing fees	\$ 6,897	\$ 6,531	\$ 366	-6%	\$ 21,323	\$ 13,892	\$ 7,431	-53%
Ohio management and administration	\$ 4,776	\$ 3,115	\$ 1,661	-53%	\$ 8,841	\$ 4,816	\$ 4,025	-84%
Insurance	\$ 5,180	\$ 6,957	\$ (1,777)	26%	\$ 10,978	\$ 13,568	\$ (2,590)	19%
Computer software and support	\$ 4,495	\$ 5,183	\$ (688)	-13%	\$ 8,566	\$ 9,263	\$ (697)	-8%
Office and storage	\$ 12,525	\$ 12,525	\$ -	0%	\$ 25,050	\$ 25,050	\$ -	0%
General and administrative - other	\$ 3,378	\$ 3,867	\$ (489)	13%	\$ 8,043	\$ 6,948	\$ 1,095	-16%
	\$ 105,432	\$ 134,581	\$ (29,149)	22%	\$ 230,758	\$ 233,708	\$ (2,950)	1%

General and Administrative costs decreased by \$2,950 or 1% in the first six months of 2021 compared to the same period in 2020. The Company has categorized its administrative expenses as follows:

Employee Compensation – This compensation represents payments of salaries and wages to one full-time management employee and two part-time administrative support personnel. In the first six months of 2021 Marksmen did not meet the criteria of lower revenues compared to the same period in 2020 and therefore was not eligible for the Canadian Emergency Wage Subsidy from the federal government.

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 \$13,800 reduction in fees in the quarter ended June 30, 2021, compared to the same period in 2021. For the first six-months of 2021 the management costs were basically the same as in the same period of 2020. This executive has consistently invested in all the private placements of the Company.

Professional Fees – Fees consist of legal fees, reserve engineering, audit, and accounting services in Canada, as well as fees for legal, engineering, geology and land consulting in Ohio, USA. Professional fees decreased in the first six months of 2021 by \$15,408 compared to the same period in 2020.

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. These costs decreased by \$2,170 in the first six months of 2021 compared to the same period in 2020.

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, New York, provincial securities commissions, and a stock transfer agent. These costs increased by \$7,431 in the first six months of 2021 compared to the same period in 2020.

Ohio Management and Administrative Expenses – Marksmen's business activities in 2020 continue to be focused on developing its oil and gas operations in Ohio. There was an increase of \$4,025 in the first six months 2021 compared to the same period in 2020.

Insurance – In 2019 Marksmen reorganized its insurance coverage. Marksmen moved from one sole provider for both Canada and its USA operations to one in the USA and one in Canada. The overall costs are now less. In the first six months of 2021 insurance costs reduced by \$2,590 over the same period in 2020. This insurance coverage in Canada and the USA includes director and officer, property, and general liability and 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 for the first six months of 2021 were \$697 less than the same period in 2020.

Office and Storage – The cost of office space remained constant in the first six months of 2021 compared to the same period in 2020.

General and Administrative Expenses – These expenses are the other G&A costs associated with normal day to day costs of running the Company. These expenditures increased by \$1,095 in the first six months of 2021 compared to the same period in 2020.

Selected Other Expenses

Interest Expense – During the first six months of 2021, the Company paid interest costs related to a secured debenture of \$75,000, the same as in the first six months of 2020.

Depletion and Site Reclamation Plan – In the first six months of 2021 depletion on 3,604 boe of production totalled \$79,853 or \$22.16 per boe compared to the same period in 2020 where 2,389 boe were produced with depletion of \$54,900 or \$23.89 per boe. The depletion was offset by funding of abandonment of a well at Alder Flats via a sub-contractor under the Site Rehabilitation Plan (“SRP”) of \$135,000 resulting in a credit balance for depletion expense of \$54,736 for the first six months of 2021. There was a corresponding adjustment to decommissioning liabilities (see note 9 of the three and six months consolidated financial statements).

Impairment – As of June 30, 2021, there were no indications of impairment of the company’s oil and gas assets, compared to a net recovery of \$25,972 in the same period in 2020.

Financial Position – Highlights

	June 30, 2021	Dec 31, 2020	Change	% Change
Assets				
Current assets	\$ 377,345	\$ 263,558	\$ 113,787	43
Exploration and evaluation assets	\$ 1,360,594	\$ 1,388,576	\$ (27,982)	(2)
Property and equipment	\$ 1,269,179	\$ 1,289,386	\$ (20,207)	(2)
	<u>\$ 3,007,118</u>	<u>\$ 2,941,520</u>	<u>\$ 65,598</u>	<u>2</u>
Liabilities				
Accounts payable and accruals	\$ 215,147	\$ 331,460	\$ (116,313)	35
Secured debentures	\$ 1,217,197	\$ 1,207,660	\$ 9,537	(1)
Government Loan	\$ 33,199	\$ 30,969	\$ 2,230	(7)
Decommissioning liabilities	\$ 347,983	\$ 429,676	\$ (81,693)	19
	<u>\$ 1,813,526</u>	<u>\$ 1,999,765</u>	<u>\$ (186,239)</u>	<u>9</u>
Equity				
Share capital, contributed surplus & other	\$ 28,009,552	\$ 27,425,045	\$ 584,507	2
Deficit	\$ (26,815,960)	\$ (26,483,290)	\$ (332,670)	(1)
	<u>\$ 1,193,592</u>	<u>\$ 941,755</u>	<u>\$ 251,837</u>	<u>27</u>
Liabilities and equity	<u>\$ 3,007,118</u>	<u>\$ 2,941,520</u>	<u>\$ 65,598</u>	<u>(2)</u>

Assets – Current assets increased by \$113,787 in the first six months of 2021 compared to year end 2020 primarily related to funds received under a private placement in February 2021. There was no appreciable change to the capital assets in the first six months of 2021 compared to year end 2020.

Liabilities – Accounts payable and accruals decreased by \$116,313 in the first six months of 2021 compared to year end 2020. Decommissioning liabilities reduced by \$81,693 due to the abandonment of a well at Alder Flats, Alberta, under the SRP program.

Equity – In the first six months of 2021 the Company's share capital and contributed surplus increased by \$584,507 compared to year end 2020 primarily due to funds raised in a private placement. The deficit increased in the first six months of 2021 by the amount of the net loss of the Corporation or \$332,670.

Oil and Gas Assets

Exploration and Evaluation (E&E)	Jun 30, 2021	Dec 31, 2020
Balance, beginning of period	\$ 1,388,576	\$ 1,901,306
Impairment of E&E assets	\$ -	\$ (503,830)
Foreign currency adjustment	\$ (27,982)	\$ (8,900)
Balance, end of year	<u>\$ 1,360,594</u>	<u>\$ 1,388,576</u>

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, and it was determined that there was no impairment in the first six months of 2021 compared to \$503,830 at year end 2020.

Property Plant and Equipment (PP&E)	Jun 30, 2021	Dec 31, 2020
Balance beginning of period	4,222,691	4,132,122
Expenditures on property and equipment	96,901	263,451
Disposal of Property and equipment	-	(86,323)
Change in estimate of decommissioning liabilities	(3,161)	(15,424)
Foreign currency adjustment	(98,213)	(71,136)
Balance, end of year	4,218,218	4,222,691
Accumulated Depletion and Impairment	Jun 30, 2021	Dec 31, 2020
Balance, beginning of period	(2,935,536)	(2,127,553)
Depletion	(79,853)	(175,328)
Impairment Expense	-	(709,321)
Foreign Currency Translation	64,530	76,665
	(2,950,859)	(2,935,536)
Net Carrying Amount - PPE	\$ 1,267,359	\$ 1,287,155

There were \$96,901 in capital expenditures on oil and gas assets in the first six months of 2021 compared to \$263,451 at year end 2020.

There was no indication of impairment in the first six months of 2021 compared to \$709,321 at year end 2020.

Decommissioning Liabilities

The Company has estimated the net present value of the decommissioning liabilities to be \$347,983 (December 31, 2020 - \$429,675). The present value of the decommissioning liability considered to be current is \$151,261 (December 31, 2020 - \$234,636). The total undiscounted amount of estimated future cash flows is \$372,476 (December 31, 2020 - \$452,345). These payments are expected to be made over the next 10 years. The obligations on the properties have been calculated using an inflation rate of 2% (December 31, 2020 – 2%) and a discount factor, being the average risk-free rate related to the liability, of between 0.44% and 1.77% (December 31, 2020 – between 0.20% and 0.55%). The Company recorded an abandonment loss of \$60,889 as the estimated capitalized abandonment costs were previously impaired. This gain of \$60,889 is included in the “change in estimates” line item above.

On May 1, 2020, the Alberta Department of Energy initiated the Site Rehabilitation Program (“SRP”) whereby it will provide funding in the form of grant payments to the oil field services sector to abandon and/or reclaim upstream oil and gas infrastructure. Pursuant to the SRP, the Company was approved for up to \$242,000 in SRP funding. To date the Company has received \$135,000 in SRP resulting in a reduction of the decommissioning liability, with an off-setting credit to depletion, depreciation, and amortization in the consolidated statement of (loss) income and comprehensive (loss) income.

(See note 9, Decommissioning liabilities, in the Company’s consolidated financial statements as of June 30, 2021, for additional details).

Secured Debenture

The Company currently has a non-convertible secured debenture in place with a third party for \$1,250,000 with a maturity date of December 31, 2022, an interest rate of 12% and 1,800,000 share purchase warrants exercisable at \$0.075 per share. The Company has paid interest totalling \$75,000 in June of 2021 under the terms of the debenture agreement. (See note 10, Secured debentures, in the Company’s consolidated financial statements as of June 30, 2021, for additional details).

Government Loan

During the year ended December 31, 2020, the Company was approved and received two loans totalling \$60,000 through ATB Financial under the Canada Emergency Business Account (“CEBA”) program funded by the Government of Canada. The CEBA loan is non-interest bearing, can be repaid at any time without penalty and is valid until December 31, 2022. If 75% of the CEBA loan is repaid on or before December 31, 2022, the repayment of the remaining 25% of such CEBA loan will be forgiven. If on December 31, 2022, the Company exercises the option for a 3-year term extension, 5% interest during the term extension period will apply on any balance remaining. (See note 11, Government Loan, in the Company’s consolidated financial statements as of June 30, 2021, for additional details).

Share Capital

The chart below is a summary of the Company’s common shares, share purchase warrants, stock options and broker warrants. It includes transactions for the first six months of 2021 and subsequently to August 27, 2021. (See note 12, Share Capital, in the Company’s consolidated financial statements as of June 30, 2021, for additional details).

	Common Shares	Stock Options	Warrants	Broker Warrants
Balance December 31, 2020	126,427,870	9,909,000	24,264,280	32,000
Private placement - February 9, 2021	12,575,000			
Warrants issued February 9, 2021			12,575,000	
Stock options granted - February 9, 2021		3,985,000		
Stock options exercised - March 19, 2021	170,000	(170,000)		
Warrants expired - February 27, 2021			(1,507,500)	
Warrants expired - March 28, 2021			(432,500)	
Broker warrants issued - Feb 9, 2021				862,000
Broker warrants exercised March 19, 2021	32,000			(32,000)
Broker warrants exercised March 31, 2021	30,000			(30,000)
Balance at March 31, 2021	139,234,870	13,724,000	34,899,280	832,000
Warrants exercised - June 24, 2021	1,000,000		(1,000,000)	
Warrants expired - June 28, 2021			(2,200,000)	
Stock options exercised - April 9, 2021	140,000	(140,000)		
Stock options exercised - May 18, 2021	169,000	(169,000)		
Stock options Expired - May 18, 2021		(790,000)		
Balance June 30, 2021	140,543,870	12,625,000	31,699,280	832,000
Warrants Expired - August 16, 2021			(640,000)	
Balance August 27, 2021	140,543,870	12,625,000	31,059,280	832,000

Share-based Payments

During the six months ended June 30, 2021, the Company granted 3,985,000 stock options (six months ended June 30, 2020 – nil), there were 479,000 stock options exercised, and there were 790,000 stock options expired and there were no stock options cancelled due to forfeiture. The options granted are exercisable at \$0.05 per option and expire 5 years after their respective grant date. 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 and six months ended June 30, 2021, was \$25,965 and \$84,535, respectively (three and six months ended June 30, 2020 - \$30,141 and \$65,180 respectively), all of which has been recorded in the statement of loss and comprehensive loss and has been recorded as an offsetting credit to contributed surplus.

Related party transactions

Related party transactions during the three months ended June 30, 2021, not disclosed elsewhere in these consolidated financial statements are as follows:

- A total of \$23,700 (June 30, 2020 - \$37,500) in consulting fees and \$7,500 (June 30, 2020 - \$7,500) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to a director and officer of the Company.
- Aggregate legal fees of \$6,455 (June 30, 2020 - \$7,589) were charged by a law firm in which a director of the Company is a partner, of which \$5,479 (June 30, 2020 - \$7,589) were expensed as general and administrative expenses and \$976 (June 30, 2020 - \$nil) were charged to share capital as share issue costs.
- Fees of \$4,867 (June 30, 2020 - \$4,245) were paid to a USA based company in which a director and officer of Marksmen Energy Inc. is an owner.

Related party transactions during the six months ended June 30, 2021, not disclosed elsewhere in these consolidated financial statements are as follows:

- A total of \$62,700 (June 30, 2020 - \$62,800) in consulting fees and \$15,000 (June 30, 2020 - \$15,000) for costs associated with office space, storage space, and various administrative support costs were paid, either directly or indirectly, to a director and officer of the Company. The Director, in turn, participated in the Company's February 9, 2021, private placement for an amount totaling \$46,000 (June 30, 2020 - \$47,000).
- Aggregate legal fees of \$21,858 (June 30, 2020 - \$14,265) were charged by a law firm in which a director of the Company is a partner, of which \$12,262 (June 30, 2020 - \$7,589) were expensed as general and administrative expenses and \$9,496 (June 30, 2020 - \$6,676) were charged to share capital as share issue costs.
- Fees of \$9,973 (June 30, 2020 - \$7,224) were paid to a USA based company in which a director and officer of Marksmen Energy Inc. is an owner.
- As at June 30, 2021, the Company has accounts payable and accrued liabilities totaling \$25,658 (December 31, 2020 - \$45,063) owing to related parties relating to the above transactions.

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

Segmented Information

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

Geographical segmentation is as follows:

	For the six months ended June 30, 2021		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	269,886	269,886
Depletion and depreciation	(134,589)	79,853	(54,736)
Net loss and comprehensive loss	317,754	14,916	332,670
Exploration and evaluation assets	-	1,360,594	1,360,594
Property, plant and equipment	(115,713)	1,384,891	1,269,179
Total liabilities	1,610,503	203,023	1,813,526

	For the six months ended June 30, 2020		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	124,782	124,782
Depletion and depreciation	138	54,762	54,900
Net loss and comprehensive loss	377,923	(38,783)	339,140
Exploration and evaluation assets	-	1,972,721	1,972,721
Property, plant and equipment	987	2,005,957	2,006,944
Total liabilities	1,886,859	434,280	2,321,139

Going Concern

At June 30, 2021, the Company had not yet achieved profitable operations, had accumulated a deficit of \$26,815,960 (December 31, 2020 - \$26,483,290) a positive working capital of \$10,937 (December 31, 2020 – negative \$302,539), 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, 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 2021 budget and on management's estimate of expenditures expected to be incurred beyond 2021.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at June 30, 2021, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company successfully completed one private placement during the six months ended June 30, 2021. To achieve its intended development, management is committed to raising additional capital and realizing additional cash flows from drilling activities. Additional equity financing is subject to volatile financial markets and economic conditions.

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 June 30, 2021, included in deposits and prepaid expenses is an amount of \$41,737 on deposit with the AER associated with the Company’s operated wells in Alberta (December 31, 2020 - \$41,633). The AER has indicated that a higher deposit may be required. However, since all wells are abandoned or shut-in and considering certain changes to government programs such as the Site Rehabilitation Program that will potentially assist Marksmen in completing the abandonments and reclamation of its wells in Alberta. Marksmen will negotiate with the AER on an as required basis.

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 was served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections with a balance on June 30, 2021, of \$97,848 (December 31, 2020 - \$97,848) related to unpaid surface leases on properties that were sold by Marksmen to a third-party company in August of 2010. (See subsequent events below).

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 agreed that the third-party company is also an Operator, but they did not agree that Marksmen 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 lease 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 Marksmen’s 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.

Subsequent Events

In July of 2021, received an amendment to the outstanding surface rights judgement from Service Alberta – Crown Debt Collections increasing the amount of the judgement from \$97,848 to \$128,077. As stated previously Marksmen continues to dispute being responsible for this judgement and discussions continue regarding our position with Service Alberta and other Alberta government departments.

In August of 2021, Marksmen drilled an offset well, Davis Holbrook #2 (“DH2”) to its best well, Davis Holbrook #1 (“DH1”) located in Pickaway County, Ohio. It was drilled to a depth of 2,479 feet, has been determined to be productive and has had production casing set and cemented. It will be completed and put on production in the next two to three weeks when a service rig is available.

Off Balance Sheet Arrangements

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

Financial Risk Management

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 debenture was calculated using an estimate of the market rate for similar debentures without warrants.

Credit risk - is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of cash and trade and other receivables represents the maximum credit exposure. As at June 30, 2021, the Company had cash of \$242,839 (December 31, 2020 - \$135,627), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at June 30, 2021, the Company's accounts receivable consisted of \$65,094 receivable from oil and natural gas marketing companies (December 31, 2020 - \$34,713), \$4,493 receivable from joint venture working interest owners (December 31, 2020 - \$25,529) and \$3,285 related to goods and service tax owing from the Government of Canada (December 31, 2020 - \$5,660).

Liquidity risk – is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company attempts, as far as possible, to have sufficient liquidity to meet its liabilities. The Company prepares operating, and capital cash management projections on a regular basis.

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. Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks.

Commodity price risk - is the risk that future cash flows will fluctuate because 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. 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. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when deemed appropriate.

Foreign currency exchange risk - is the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Company regularly converts Canadian and United States currencies as operations and capital expenditures require. The Company currently sells oil or natural gas in USD. As of June 30, 2020, the Company had no forward exchange rate contracts in place.

Interest rate risk – is the risk that future cash flows will fluctuate because 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 debenture bears a fixed interest rate of 12%. The Company has no interest rate swaps or financial contracts in place during the first six months of 2021 or for the same period in 2020.

(See note 14, Financial Risk Management, in the Company's consolidated financial statements as of June 30, 2021, for additional details).

Outlook

Marksman is pleased to see that with the recent increase in the price of WTI oil to over \$65 it has resulted in a resurgence in the optimism of the oil and gas industry in Ohio and elsewhere. This has resulted in revisiting opportunities on Marksman's and partners land positions in Pickaway County. Marksman has also been approached by other oil and gas companies and to participate in exciting new drilling and exploration opportunities.

In August of 2021, Marksman drilled an offset well, Davis Holbrook #2 ("DH2") to Marksman's best well, Davis Holbrook #1 ("DH1") located in Pickaway County, Ohio. It was drilled to a depth of 2,479 feet, has been determined to be productive and has had production casing run and cemented. It will be completed and put on production in the next two to three weeks when a service rig is available.

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.

Other

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