

Marksmen Energy Inc.

Consolidated Financial Statements
For the three months ended March 31, 2022 and 2021
(Expressed in Canadian Dollars)
(Unaudited)

NOTICE OF NO AUDITOR REVIEW In accordance with National Instrument 51-102 Section 4.3(3)(a) released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited Interim Consolidated Financial Statements for the three months ended March 31, 2022 and 2021.

Marksman Energy Inc.

Consolidated Statements of Financial Position

For the periods ended:

(Canadian \$)	March 31, 2022	December 31, 2021
ASSETS		
Current Assets		
Cash	577,242	621,413
Trade and other receivables (note 13(b))	168,118	224,512
Deposits and prepaid expenses (note 14(a))	61,943	62,096
Total Current Assets	807,303	908,021
Exploration and evaluation assets (note 4)	1,369,038	1,384,105
Property and equipment (note 6)	2,083,384	2,160,387
TOTAL ASSETS	4,259,725	4,452,513
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 13(c))	356,106	464,669
Decommissioning liabilities (note 8)	160,750	160,750
Government loan (note 10)	36,861	35,596
Secured debentures (note 9)	1,232,859	1,227,400
Total Current Liabilities	1,786,576	1,888,415
Decommissioning liabilities (note 8)	260,840	272,356
	2,047,416	2,160,771
SHAREHOLDERS' EQUITY		
Share capital (note 11(b))	20,314,512	20,314,512
Warrants (note 11(e))	1,327,878	1,379,021
Contributed surplus (note 11(g))	7,219,586	7,143,059
Accumulated other comprehensive income	537,332	583,635
Deficit	(27,186,999)	(27,128,485)
	2,212,309	2,291,742
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,259,725	4,452,513

Going concern (note 1)

Commitments (note 14)

Approved by the Board of Directors:

Signed "Donald D. Jones"

Donald Jones

Signed "Archie J. Nesbitt"

Archie Nesbitt

The notes are an integral part of these consolidated financial statements

Marksman Energy Inc.

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

	March 31, 2022	March 31, 2021
REVENUE		
Petroleum and natural gas sales (note 17)	278,508	113,617
Royalties	(35,780)	(14,842)
	242,728	98,775
EXPENSES		
Production and operating expenses	39,753	88,886
Depletion and depreciation (note 6)	64,640	(43,959)
General and administrative	125,993	125,326
Share-based payments (note 11(d))	25,384	58,570
Loss from operations	(13,042)	(130,048)
FINANCE EXPENSE		
Interest expense (note 9)	37,500	37,500
Accretion of secured debentures (note 9)	5,459	5,293
Accretion of decommissioning liabilities (note 8)	1,248	385
Other finance expense (income) (note 10)	1,265	1,063
	(45,472)	(44,241)
NET LOSS	(58,514)	(174,289)
Other comprehensive income that may subsequently be transferred to net loss		
Currency translation adjustment	(46,303)	(28,195)
NET LOSS AND COMPREHENSIVE LOSS	(104,817)	(202,484)
Basic and diluted loss per share	(0.00)	(0.00)
Weighted average number of common shares outstanding during the period	163,098,933	117,671,402

The notes are an integral part of these consolidated financial statements

Marksman Energy Inc.

Consolidated Statements of Changes in Equity

(Canadian \$)	Share Capital	Warrants	Contributed Surplus	Deficit	Accumulated Other Comprehensive Income	Total
BALANCE AS AT DECEMBER 31, 2021	20,314,512	1,379,021	7,143,059	(27,128,485)	583,635	2,291,742
Loss for the period	-	-	-	(58,514)	-	(58,514)
Translation differences on foreign subsidiaries	-	-	-	-	(46,303)	(46,303)
Warrants expired (note 11(e))	-	(53,526)	53,526	-	-	-
Expiry of warrant share issue costs (note 11(e))	-	2,383	(2,383)	-	-	-
Share-based payments (note 11(d))	-	-	25,384	-	-	25,384
BALANCE AS AT MARCH 31, 2022	20,314,512	1,327,878	7,219,586	(27,186,999)	537,332	2,212,309
BALANCE AS AT DECEMBER 31, 2020	19,648,385	620,005	6,557,729	(26,483,290)	598,925	941,754
Loss for the period	-	-	-	(174,289)	-	(174,289)
Translation differences on foreign subsidiaries	-	-	-	-	(28,195)	(28,195)
Private placement (note 11(b))	83,999	419,001	-	-	-	503,000
Cash share issue costs (note 11(b))	(11,542)	(57,576)	-	-	-	(69,118)
Broker warrants exercised (note 11(f))	3,100	-	26,118	-	-	29,218
Reallocation of broker warrant fair value on exercise	1,270	-	(1,270)	-	-	-
Stock options exercised (note 11(d))	8,500	-	-	-	-	8,500
Reallocation of stock option fair value on exercise	8,183	-	(8,183)	-	-	-
Warrants expired (note 11(e))	-	(133,826)	133,826	-	-	-
Expiry of warrant share issue costs (note 11(e))	-	3,678	(3,678)	-	-	-
Share-based payments (note 11(d))	-	-	58,570	-	-	58,570
BALANCE AS AT MARCH 31, 2021	19,741,896	851,282	6,763,114	(26,657,579)	570,730	1,269,441

The notes are an integral part of these consolidated financial statements

Marksman Energy Inc.

Consolidated Statements of Cash Flows

(Canadian \$)	March 31, 2022	March 31, 2021
CASH FLOW (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	(58,514)	(174,289)
ITEMS NOT AFFECTING CASH:		
Depletion and depreciation (note 6)	64,640	(43,959)
Accretion of decommissioning liabilities (note 8)	1,248	385
Other income (note 10)	1,265	1,095
Accretion of secured debentures (note 8)	5,459	5,293
Share-based payments (note 11(d))	25,384	58,570
Change in trade and other receivables	56,394	879
Change in deposits and prepaid expenses	153	1,830
Change in accounts payable and accrued liabilities	(40,933)	(129,665)
CASH FLOW USED IN OPERATING ACTIVITIES	55,096	(279,861)
INVESTING ACTIVITIES		
Expenditure on property and equipment (note 6)	(26,673)	(73,450)
Change in non-cash working capital	(67,629)	176,496
CASH FLOW PROVIDED BY (USED IN) INVESTING ACTIVITIES	(94,302)	103,046
FINANCING ACTIVITIES		
Proceeds from private placements, net of cash issue costs (note 11(b))	-	460,000
Proceeds from exercise of stock options (note 11(b))	-	8,500
Proceeds from exercise of broker warrants (note 11(f))	-	3,100
CASH FLOW PROVIDED BY FINANCING ACTIVITIES	-	471,600
Foreign exchange effect on cash	(4,964)	(3,626)
Increase in cash	(44,171)	291,160
Cash, beginning of period	621,413	135,627
CASH, END OF PERIOD	577,242	426,787

The notes are an integral part of these consolidated financial statements

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

1. Reporting entity and going concern

Marksman Energy Inc. (the "Company") is involved in the exploration, development and production of petroleum and natural gas properties in Ohio, USA and Alberta, Canada. The Company was incorporated in Canada under the laws of the Alberta Business Corporations Act on March 14, 1997. The Company is listed on the TSX Venture Exchange under the symbol "MAH.V" and on the OTCQB Venture Marketplace under the symbol "MKSEF". The Company's registered office is located at Suite 1600 Dome Tower, 333-7th Avenue SW, Calgary, Alberta, Canada, T2P 2Z1.

At March 31, 2022, the Company had not yet achieved profitable operations, had accumulated a deficit of \$27,186,999 (December 31, 2021 - \$27,128,485) a negative working capital of \$979,273 (December 31, 2021 - \$980,394), 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 2022 budget and on management's estimate of expenditures expected to be incurred beyond 2022.

Management has applied significant judgment in preparing forecasts supporting the going concern assumption. Specifically, management has made assumptions regarding projected oil sales volumes and pricing, scheduling of payments arising from various obligations as at March 31, 2022, the availability of additional financing, and the timing and extent of capital and operating expenditures. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's ability to continue as a going concern.

To achieve its intended development, management is committed to raising additional capital and realizing additional cash flows from drilling activities. Additional equity financing is subject to volatile financial markets and economic conditions.

The consolidated financial statements have been prepared on a basis which asserts that the Company will continue to have the ability to realize its assets and discharge its liabilities and commitments in a planned manner with consideration to expected possible outcomes. Conversely, if the assumption made by management is not appropriate and the Company is unable to meet its obligations as they fall due the preparation of these consolidated financial statements on a going concern basis may not be appropriate and adjustments to the carrying amounts of the Company's assets, liabilities, revenues, expenses, and financial position classifications may be necessary and such adjustments could be material.

During 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may continue to have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

2. Basis of presentation

a) Statement of compliance:

The interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations as issued by the International Accounting Standards Board as disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2021. These interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2021 and exclude certain disclosures required to be included in the annual financial statements. The Board of Directors approved the consolidated financial statements on May 27, 2022.

b) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Marksman Energy USA, Inc. The subsidiary is fully consolidated from the date of acquisition, being the date of which the Company obtained control, and continues to be consolidated until the date that such control ceases. The financial statements of

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

the subsidiary are prepared for the same reporting period as the parent, using consistent accounting policies. Any balances, unrealized gains and losses, or income and expenses from intra-company transactions are fully eliminated upon consolidation.

c) Basis of measurement:

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

d) Functional and presentation currency:

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

e) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

3. Equity investment

During 2012, the Company's share of the US Private Company ("US PrivateCo.") losses were in excess of Company's interest and accordingly at March 31, 2022 the investment was valued at \$nil (December 31, 2021 - \$nil).

4. Exploration and evaluation

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of period	1,384,105	1,388,576
Expenditures on exploration and evaluation assets	-	639,097
Impairment of exploration and evaluation assets	-	(639,097)
Foreign exchange translation	(15,067)	(4,471)
BALANCE, END OF PERIOD	1,369,038	1,384,105

E&E assets consist of the Company's exploration projects which are pending the determination of technological feasibility and commercial viability. As at March 31, 2022, the Company has \$1,369,038 in E&E assets (December 31, 2021 - \$1,384,105). During the period ended March 31, 2022, there were additions of \$nil (December 31, 2021 - \$639,097). Additions represent the acquisition of undeveloped land, seismic activity and the costs associated with wells that have not reached technical feasibility and commercial viability within Ohio, USA. The additions made during the year ended December 31, 2021 were specific to the drilling of the Webb #1 well in Ohio, USA. Prior to their transfer to property and equipment, the additions were assessed for impairment and it was determined that \$639,097 of the carrying amount to be transferred were not technically feasible or commercially viable. Accordingly, \$639,097 was expensed as an exploration and evaluation impairment (note 7).

5. Acquisition

On August 1, 2021, the Company closed an acquisition (the "Acquisition") whereby a related party assigned its working interest in one producing well in Alberta, Canada to the Company. The Acquisition was accounted for as a business combination. Total consideration paid for the Acquisition was \$1. The Company assumed \$24,741 of accounts receivable generated by the well between the Acquisition's effective date of May 1, 2019 and the closing date of August 1, 2021. In addition, the Company assumed the decommissioning liability associated with the well. During the three

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

months ended March 31, 2022, the Company collected \$24,741 of the accounts receivable from the operator of the well. The Acquisition adds oil and natural gas assets in Alberta, Canada.

The Company's 2021 consolidated statement of net loss and comprehensive loss includes the results of the operations for the period following closing of the Acquisition on August 1, 2021 to December 31, 2021 and includes \$27,400 of revenue and \$2,682 of net income relating to the Acquisition. If the acquisition had closed on January 1, 2021, the Company's pro-forma revenue and net income are estimated to have been \$75,831 and \$36,414 respectively for the year ended December 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have occurred had the acquisition been in effect on the date indicated, or the results that may be obtained in the future.

The following table summarizes the fair value of the net assets acquired:

Accounts receivable	24,741
Property and equipment	20,088
Decommissioning liability	(20,088)
Fair value of net assets acquired	24,741
Total consideration	1
Gain on acquisition	24,740

6. Property and equipment

	As at March 31, 2022	As at December 31, 2021
COST		
Balance, beginning of period	4,674,458	4,222,691
Expenditures on property and equipment	26,673	390,386
Change in estimate of decommissioning liabilities (note 8)	(9,132)	77,073
Foreign currency translation	(59,309)	(15,691)
BALANCE, END OF PERIOD	4,632,690	4,674,458
ACCUMULATED DEPLETION		
Balance, beginning of period	(2,515,481)	(2,935,535)
Depletion	(64,518)	(214,554)
Impairment reversal (note 7)	-	619,720
Foreign currency translation	29,405	14,888
BALANCE, END OF PERIOD	(2,550,594)	(2,515,481)
NET CARRYING AMOUNT, END OF PERIOD	2,082,096	2,158,977

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

Corporate assets

	As at March 31, 2022	As at December 31, 2021
COST		
Balance, beginning of period	22,167	22,167
Additions	-	-
BALANCE, END OF PERIOD	22,167	22,167
ACCUMULATED DEPRECIATION		
Balance, beginning of period	(20,758)	(19,937)
Depreciation	(122)	(821)
BALANCE, END OF PERIOD	(20,880)	(20,758)
NET CARRYING AMOUNT, END OF PERIOD	1,287	1,409

At March 31, 2022, future development costs of \$1,099,960 (December 31, 2021 - \$1,115,980) are included in costs subject to depletion. The Company currently has two CGU's, Ohio, USA and Alberta, Canada, which was established in the Acquisition (note 5). Prior to the Acquisition, all the Company's Canadian petroleum and natural gas assets were shut-in and awaiting abandonment and reclamation.

7. Impairment

During the year ended December 31, 2020, the continued depressed commodity prices experienced was an indicator of impairment, and accordingly, impairment and recovery testing was required over the Company's Ohio CGU. The Company prepared estimates of future cash flows to determine the recoverable amounts of the respective assets. Recoverable amounts for the Company's oil and gas assets were estimated based on FVLCD, calculated using the present value of the CGUs' expected future cash flows. The primary source of cash flow information was derived from a report on the Company's oil and gas reserves which was prepared by an independent qualified reserve evaluator.

Based on an increase in forward benchmark commodity prices and increases to proved plus probable oil and natural gas reserves at December 31, 2021 compared to December 31, 2020, an impairment recovery test was performed. The recovery test concluded that the carrying amount of the Ohio CGU exceeded their FVLCD. Impairment losses can be reversed in future period if the estimated recoverable amount of the CGU exceeds its carrying value. The impairment recovery is limited to a maximum of the estimated depleted historical cost if the impairment had not been recognized. At March 31, 2022 and December 31, 2021, there were no indicators suggesting an impairment test over the Company's Alberta CGU (established in the Acquisition (note 5)) was necessary.

The projected cash flows reflect current market assessments of key assumptions, including long-term forecasts of commodity prices, inflation rates, and foreign exchange rates. Cash flow forecasts are also based on past experience, historical trends and an evaluation of the Company's reserves and resources to determine production profiles and volumes, operating costs, maintenance and future development capital expenditures. Production profiles, reserves volumes, operating costs, capital expenditures are consistent with the estimates approved through the Company's annual reserves evaluation process. The discount rate applied in the impairment calculation as at December 31, 2021 was 15% of proven reserves and 20% of probable reserves.

The FVLCD estimates are categorized as level 2 according to the IFRS 13 fair value hierarchy. Based on the assessment at December 31, 2021, the recoverable amount of the Company's Ohio, USA CGU exceeded its carrying value, and accordingly, an impairment reversal of \$619,720 was recognized.

Of the amount of E&E impairment recorded as at December 31, 2021, \$nil was determined based on the same impairment methodology as was applied to PP&E. The test was applied to the specific assets included in the amount of E&E that was to be transferred to PP&E.

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

8. Decommissioning liabilities

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of period	433,106	429,676
Liabilities incurred	-	74,871
Liabilities settled through SRP	-	(135,000)
Change in estimate	(9,134)	62,860
Accretion expense	1,247	1,525
Foreign currency translation	(3,631)	(827)
BALANCE, END OF PERIOD	421,588	433,106
 Current	 160,750	 160,750
Non-current	260,840	272,356

The Company has estimated the net present value of the decommissioning liabilities to be \$421,588 (December 31, 2021 - \$433,106). The present value of the decommissioning liability considered to be current is \$160,750 (December 31, 2021 - \$160,750). The total undiscounted amount of estimated future cash flows is \$449,015 (December 31, 2021 - \$452,910). 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% (2020 - 2%) and a discount factor, being the average risk-free rate related to the liability, of 2.17% - 2.41% (December 31, 2021 - 0.91%-1.33%).

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. As at March 31, 2022 the Company has received \$135,000 (December 31, 2021 - \$135,000) in SRP resulting in a reduction of the decommissioning liability, with an off-setting credit to other income in the consolidated statement of loss and comprehensive loss.

9. Secured debentures

	Secured debentures
Balance, December 31, 2020	1,207,660
Accretion of Debenture B	19,740
Balance, December 31, 2021	1,227,400
Accretion of Debenture B	5,459
Balance, March 31, 2022	1,232,859

On June 28, 2019, the Company closed a private placement of a non-convertible secured debenture ("Debenture B") to replace the Debenture. The non-convertible Debenture B was issued for \$1,250,000, along with the issuance of 1,800,000 share purchase warrants of the Company. Each whole warrant entitled the holder thereof to purchase one common share of the Company for \$0.10 per share, expiring on December 31, 2020. The previous Debenture warrants were cancelled unexercised upon issuance of the Debenture B warrants. Debenture B bore an interest rate of 12% per annum and was set to mature on December 31, 2020. The interest payments were due and payable semi-annually beginning December 31, 2019. All other terms and conditions of Debenture B are consistent with the Debenture.

On July 1, 2020, the Company modified the Debenture B to extend the maturity date and the associated share purchase warrants to December 31, 2022 (the "Debenture Modification"). In addition, the Debenture Modification lowered the exercise price of the issued share purchase warrants from \$0.10 per share to \$0.075 per share. All other terms and conditions remain consistent. As the terms and future cashflows under the debenture modification were not

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

substantially different from the terms of the initial Debenture B, the amendment was considered a debt modification. As a result, a gain on debt modification of \$39,570 was recorded for the difference between the carrying value of the Debenture Modification at the date of the amendment and the fair value of the cashflows under the amended terms. Subsequent to July 1, 2020, the amended Debenture B is carried at amortized cost using the effective interest rate method. During the three months ended March 31, 2022, the Company recorded interest expense of \$37,500 (three months ended March 31, 2021 - \$37,500). During the year ended December 31, 2021, all the share purchase warrants were exercised (note 11(e)).

Consistent with the Debenture, the Company may, at any time, repay the principle and any accrued interest of the Debenture B without notice or penalty. If the Company is in default of the requirements included in the Debenture B agreement, the Debenture B holder may demand repayment of the Debenture B or accelerate the date for payment. Security for the Debenture B includes a general security agreement against the Company's present and after-acquired personal property and all proceeds thereof. As at March 31, 2022, the Company is in compliance with all requirements pursuant to Debenture B.

10. Government loan

During the year ended December 31, 2020, the Company was approved and received a \$60,000 CEBA loan with the bank 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 at the CEBA loan Commencement Date is repaid on or before December 31, 2022, the repayment of the remaining 25% of such CEBA loan shall 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.

The Company recognized the forgivable portion of \$20,000 of the CEBA loan received in other income at December 31, 2020. The Company used an effective interest rate of 14.47% to calculate the interest benefit of \$11,889 upon initial recognition of the CEBA loan. This benefit between the fair value of the CEBA loan and the total amount of the CEBA loan received was recorded in other income at December 31, 2020. During the three months ended March 31, 2022, accretion expense of \$1,265 has been recorded as other expense in the statement of loss and comprehensive loss (year ended December 31, 2021 - \$4,627).

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

11. Share capital

a) Authorized

Unlimited number of common shares with voting rights, at par value

Unlimited number of preferred shares, issuable in series, at par value

b) Issued

	Number	Amount
Balance, December 31, 2020	126,427,870	19,648,385
Shares issued pursuant to private placement (iv)	12,575,000	83,999
Shares issued pursuant to private placement (v)	20,833,330	403,823
Shares issued to brokers of private placement (v)	921,733	17,182
Shares issued pursuant to stock option exercise	479,000	23,950
Fair value reclass pursuant to stock option exercise	-	23,057
Shares issued pursuant to warrant exercise	1,800,000	135,000
Fair value reclass pursuant to warrant exercise	-	32,804
Shares issued pursuant to broker warrant exercise	62,000	3,100
Fair value reclass pursuant to broker warrant exercise	-	1,270
Share issue costs ((iv) and (v))	-	(58,058)
Balance, December 31, 2021 and March 31, 2022	163,098,933	20,314,512

- i) On February 9, 2021, the Company closed a private placement issuing a total of 12,575,000 units ("Unit A") for aggregate proceeds of \$503,000. Each Unit A consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.07 per common share for a period of 24 months from issuance, which was valued at \$419,001 (note 11(e)(i)). In connection with the private placement, the Company incurred cash share issue costs of \$43,976, and issued 862,000 broker warrants valued at \$26,119. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.05 per common share for a period of 12 months from issuance (note 11(f)). Share issue costs of \$12,518 were allocated to share capital and \$57,576 were allocated to warrants.
- ii) On September 29, 2021 and November 5, 2021, the Company closed a private placement issuing a total of 20,833,330 units ("Unit B") for aggregate proceeds of \$1,250,000. Each Unit B consisted of one common share of the Company and one common share purchase warrant, with each whole warrant entitling the holder thereof to purchase one common share of the Company for \$0.09 per common share for a period of 24 months from issuance, which was valued at \$846,178 (note 11(e)(ii)). In connection with the private placement, the Company incurred cash share issue costs of \$48,150, issued 921,733 Unit B valued at \$55,304, and issued 1,273,733 broker warrants valued at \$39,226. Each broker warrant entitled the holder thereof to purchase one common share of the Company at a price of \$0.06 per common share for a period of 12 months from issuance (note 11(f)). Share issue costs of \$45,540 were allocated to share capital and \$97,140 were allocated to warrants.

c) Stock options

The Company has established a stock option plan (the "Plan") for the benefit of the directors, officers, employees and consultants of the Company. The maximum number of options available under the Plan is limited to 10% of the issued and outstanding common shares on the date the option is granted, with the maximum number of options available to an individual director, officer, employee or consultant not exceeding 5% or 2%, respectively, of the

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

issued and outstanding shares. Such options will be exercisable for a period of up to 5 years from the date of grant, at an exercise price and vesting period as determined by the Board of Directors.

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

	As at March 31, 2022		As at December 31, 2021	
	Number	Weighted Average Exercise Price (\$)	Number	Weighted Average Exercise Price (\$)
Balance, beginning of the period	14,720,000	0.08	9,909,000	0.11
Granted	-	-	6,905,000	0.05
Exercised	-	-	(479,000)	(0.05)
Expired	-	-	(1,615,000)	(0.07)
BALANCE, END OF PERIOD	14,720,000	0.08	14,720,000	0.08

Exercise Price (\$)	Options Outstanding	Weighted Average Remaining Term (Years)	Weighted Average Exercise Price (\$)	Options Exercisable	Weighted Average Exercise Price (\$)
0.00 - 0.09	9,705,000	3.77	0.05	6,430,000	0.06
0.10 - 0.19	2,465,000	1.65	0.12	2,525,000	0.12
0.20 - 0.29	2,550,000	0.90	0.21	2,550,000	0.21

As at March 31, 2022, the Company had 11,505,000 exercisable options and 3,215,000 options granted but not yet vested. The weighted average exercise price of the exercisable options is \$0.10.

d) Share-based payments

During the three months ended March 31, 2022, the Company granted nil stock options (December 31, 2021 – 6,905,000), there were nil options exercised and nil expired unexercised (December 31, 2021 – 479,000 and 1,615,000, respectively). The options granted during 2021 are exercisable at an average \$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.

	As at December 31, 2021
Risk-free interest rate	0.63%
Expected life	2.5 years
Expected volatility	153.55%
Fair value per option	\$0.04
Forfeiture rate	0.00%
Dividend yield	-

Share-based payments expense recognized during the three months ended March 31, 2022 was \$25,384 (three months ended March 31, 2021 - \$58,570), all of which has been recorded in net loss with an offsetting credit to contributed surplus.

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

e) Warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2020	24,264,280	0.10	620,005	1.23
Warrants issued pursuant to private placement (note 13(b)(iv))	12,575,000	0.07	419,001	1.61
Warrants issued pursuant to private placement (note 13(b)(v))	20,833,330	0.09	846,177	2.00
Warrants issued to brokers of private placement (note 13(b)(v))	921,733	0.09	38,122	-
Share issue costs (note 13(b)(iv) and (v))	-	-	(154,716)	-
Exercise of warrants	(1,800,000)	0.08	(32,804)	-
Expiry of warrants	(9,274,000)	(0.13)	(371,713)	-
Expiry of warrant share issue costs	-	-	14,949	-
Balance, December 31, 2021	47,520,343	0.08	1,379,021	1.11
Expiry of warrants	(3,880,280)	0.10	(53,526)	-
Expiry of warrant share issue costs	-	-	2,383	-
Balance, March 31, 2022	43,640,063	0.08	1,327,878	1.12

- (i) As part of the units issued in the private placement that closed on February 9, 2021 (note 11(b)(i)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.07 for a period of 24 months from the date of closing. A value of \$419,001 (\$0.03 per warrant) has been attributed to the warrants issued.
- (ii) As part of the units issued in the private placement that closed on September 29, 2021 and November 5, 2021 (note 11(b)(ii)), subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.09 for a period of 24 months from the date of closing. A value of \$846,178 (\$0.04 per warrant) has been attributed to the warrants issued.

The fair value of the warrants issued are estimated as at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the calculation are noted below:

	As at December 31, 2021
Risk-free interest rate	55.00%
Expected life	2.00 years
Expected volatility	162.70%
Fair value per warrant	\$0.04

f) Broker warrants

	Number of Warrants	Weighted Average Exercise Price (\$)	Amount(\$)	Weighted Average Expiry Date
Balance, December 31, 2020	32,000	0.05	362	0.22
Broker warrants issued pursuant to private placement (note 13(b)(iv))	862,000	0.05	26,119	0.36
Broker warrants issued pursuant to private placement (note 13(b)(v))	1,273,733	0.06	39,226	1.00
Broker warrants exercised	(62,000)	(0.05)	(1,270)	-
Balance, December 31, 2021	2,105,733	0.06	64,437	0.54
Broker warrants expired	(832,000)	(0.05)	(25,211)	-
Balance, March 31, 2022	1,273,733	0.06	39,226	0.58

- (i) As part of the private placement that closed on February 9, 2021, the Company issued 862,000 (note 11(b)(i)) broker warrants. Each broker warrant granted entitles the holder to purchase one common share at a price of \$0.05 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$26,119 and recorded as share issue costs. During the three months ended March 31, 2022, all broker warrants that were outstanding from this issuance expired unexercised.
- (ii) As part of the private placement that closed on September 29, 2021 and November 5, 2021, the Company issued 1,273,733 (note 11(b)(ii)) broker warrants. Each broker warrant granted entitles the holder to purchase one

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

common share at a price of \$0.06 per common share for a period of 1 year from the date of closing. The broker warrants were valued at \$39,226 and recorded as share issue costs.

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

	As at December 31, 2021
Risk-free interest rate	0.55%
Expected life	1 year
Expected volatility	171.15%
Fair value per broker warrant	\$0.03

g) Contributed surplus

	As at March 31, 2022	As at December 31, 2021
Balance, beginning of the period	7,143,059	6,557,729
Share-based payments (note 13(d))	25,384	187,548
Expiry of warrants (note 13(e))	53,526	371,713
Expiry of warrant share issue costs (note 13(e))	(2,383)	(14,949)
Broker warrants issued (note 13(f))	-	65,345
Exercise of stock options	-	(23,057)
Exercise of broker warrants	-	(1,270)
BALANCE, END OF PERIOD	7,219,586	7,143,059

12. Related party transactions

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

- A total of \$28,500 (March 31, 2021 - \$39,000) in consulting fees and \$7,500 (March 31, 2021 - \$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 \$nil (March 31, 2021 - \$15,403) were charged by a law firm in which a director of the Company is a partner, of which \$nil (March 31, 2021 - \$6,883) were expensed as general and administrative expenses and \$nil (March 31, 2021 - \$8,520) were charged to share capital as share issue costs.
- Fees of \$3,850 (March 31, 2021 - \$5,105) were paid to a USA based company in which a Director and officer of Marksman Energy Inc. is an owner.
- As at March 31, 2022, the Company has accounts payable and accrued liabilities totaling \$6,341 (December 31, 2021 - \$17,685) owing to related parties relating to the above transactions.

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

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

13. Financial risk management

(a) Fair values:

The fair value of cash, trade and other receivables, and accounts payable and accrued liabilities approximates their carrying value due to their short term nature. The fair value of the debentures were 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.

(b) Credit risk:

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 March 31, 2022, the Company had cash of \$577,242 (December 31, 2021 - \$621,413), all of which was deposited with two major financial institutions. Management has assessed the risk of loss to be minimal.

As at March 31, 2022, the Company's accounts receivable consisted of \$126,885 receivable from oil and natural gas marketing companies (December 31, 2021 - \$159,718), \$20,229 receivable from joint venture working interest owners (December 31, 2021 - \$48,579) and \$21,004 related to goods and service tax owing from the Government of Canada (December 31, 2021 - \$16,215). As at March 31, 2022, 79% (December 31, 2021 - 68%) 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. 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 other receivable at March 31, 2022 and December 31, 2021, excluding any impaired accounts, are as follows:

	As at March 31, 2022	As at December 31, 2021
Days outstanding		
0-30 days	142,996	169,695
31-60 days	-	10,506
61-90 days	8,892	35,238
Greater than 90 days	16,230	9,074
Trade and other receivables, net of allowance	168,118	224,512

The Company assessed the credit loss risk as \$nil at March 31, 2022 and December 31, 2021 based on historical data and future expectations and there was no allowance recorded against the accounts receivable.

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At March 31, 2022, the Company's maximum exposure to liquidity risk is the accounts payable and accrued liabilities balance of \$356,106, the government loan of \$36,861 (note 10) and the secured debenture of \$1,232,859 (note 9), which are all due over the next twelve months. 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.

(d) Market risk:

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net income (loss) 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.

(i) Commodity price risk:

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 periods ended March 31, 2022 and December 31, 2021. A 20% change in price per bbl in commodity process would impact petroleum and natural gas sales by approximately \$49,000.

(ii) Foreign currency risk:

Foreign currency exchange rate 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 period would not have a material impact on the Company's loss.

As at March 31, 2022 and December 31, 2021, the Company had no forward exchange rate contracts in place.

The Company had the following financial instruments denominated in USD:

	March 31, 2022	December 31, 2021
Cash	562,578	610,889
Trade and other receivables	144,431	180,874
Accounts payable and accrued liabilities	(71,486)	(190,804)

Marksman Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

(iii) Interest rate risk:

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 9).

The Company has no interest rate swaps or financial contracts in place as at or during the periods ended March 31, 2022 and December 31, 2021.

14. Commitments

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

At March 31, 2022, included in deposits and prepaid expenses is an amount of \$41,893 on deposit with the AER associated with the Company's operated wells in Alberta (December 31, 2021 - \$41,772). The AER has indicated that a higher deposit may be required. Since all wells in Alberta are either abandoned or shut-in, the Company has decided to continue negotiations with the AER to bring certain wells back on production to add positive deemed asset valuation.

- b) The Surface Rights Board ("SRB") is a quasi-judicial tribunal in Alberta that has a dispute resolution process to resolve issues of non-payment of surface leases to landowners by oil and gas companies. On September 18, 2018, the Company has been served with a Judgement from the Alberta Government – Service Alberta – Crown Debt Collections with a balance at March 31, 2022 of \$134,111 (December 31, 2021 - \$134,111) related to unpaid surface leases on properties that were sold by Marksman 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 and agrees they are responsible for the payment of surface leases. The third-party made a partial payment to Service Alberta in November 2018.

On April 4, 2019, SRB ruled and agreed 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 bad debt expense in the prior year. The Company will continue to review its options and continue discussions with SRB regarding an appeal of these rulings.

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. Marksman's position on this judgement is that the assignment of Surface Rights agreements takes precedent while the SRB asserts that the provincial laws governing the SRB places the responsibility on the operator as defined by Alberta law governing SRB and the Alberta Energy Regulator.

Marksmen Energy Inc.

Notes to the Consolidated Financial Statements

For the three months ended March 31, 2022 and 2021

15. Segmented information

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

Geographical segmentation is as follows:

	For the three months ended March 31, 2022		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	278,508	278,508
Depletion and depreciation	122	64,518	64,640
Net loss	189,168	(130,654)	58,514
Exploration and evaluation assets	334,512	1,034,526	1,369,038
Property, plant and equipment	17,035	2,066,349	2,083,384
Total liabilities	1,734,392	313,024	2,047,416

	For the three months ended March 31, 2021		
	Canada	Unites States	Total
Petroleum and natural gas sales	-	113,617	113,617
Depletion and depreciation	(81,801)	37,842	(43,959)
Net loss (income)	138,983	35,306	174,289
Exploration and evaluation assets	-	1,375,578	1,375,578
Property, plant and equipment	(115,501)	1,421,359	1,305,859
Total liabilities	1,681,807	283,842	1,965,649

16. Capital management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business.

The Company actively manages its capital structure which includes shareholders' equity and debt. In order to maintain or adjust its capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. As part of the capital management program the Company monitors its working capital ratio. The Company's objective is to maintain a working capital ratio of greater than 1:1 defined as the ratio of current assets divided by current liabilities. At March 31, 2022, the working capital ratio was 0.45:1 (December 31, 2021 – 0.48:1) (note 1). The Board of Directors has not established quantitative return on capital criteria for management, but rather promotes conservative capital management. The Company is not subject to any externally imposed capital requirements.

The current economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At March 31, 2022 and December 31, 2021, the Company remains in compliance with all terms of the Debentures and based on current available information, management expects to comply with all terms during the subsequent 12-month period.

17. Revenue

In the US, the Company derives its revenue from the sale of oil and natural gas directly from two refineries and a joint venture partner. In Canada, oil and natural gas is sold on the Company's behalf by a joint interest partner.