# SATURN OIL & GAS INC.
## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

FOR THE FULL YEAR ENDED DECEMBER 31, 2018

Dated: April 30, 2019

## INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of Saturn Oil & Gas Inc. (the "Company" or "Saturn") has been prepared by management in accordance with the requirements of National Instrument of 51-102 as of December 31, 2018, and should be read in conjunction with the audited annual financial statements for the twelve months ended December 31, 2018 and 2017 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The following should also be read in conjunction with the audited annual financial statements for the year ended December 31, 2017 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the international Accounting Standards Board. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a "Venture Issuer" as defined in NI 51-102 Continuous Disclosure Obligations. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and the Company's website at www.saturnoil.com.

All financial information in this MD&A has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

This MD&A contains forward-looking statements and non-IFRS measures. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosures under the headings "Forward-Looking Statements" and "Non-IFRS Measures" included at the end of this MD&A.

Saturn's website, www.saturnoil.com, is a valuable source for the latest news of the Company's activities. Prior years' reports are also available on Saturn's website and on the SEDAR website at www.sedar.com.

## OVERVIEW OF THE BUSINESS

Saturn Oil & Gas Inc. was incorporated under the Laws of British Columbia on August 16, 2001 and continued into the province of Saskatchewan on December 17, 2018. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company's current focus is to advance the exploration and development of its oil and gas properties in west-central Saskatchewan. In January 2017, the Company changed its strategic direction from a mining / mineral exploration company to an entity focused on the acquisition and development of oil and gas assets and the subsequent successful production of hydrocarbon from properties in the Western Canadian Sedimentary Basin. The Company's 2017 comparative results included herein reflect the change of business that occurred through 2017, including the impact of only 31 days of production during the year, compared to a full 365 days in 2018.

The Company's corporate headquarters are at Suite 1000 – 215 9$^{th}$ Ave SW, Calgary, Alberta, T2P 1K3. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange and trade under the symbol "SOIL".

Management is actively working with financers to grow the Company's production and revenue through a combination of drilling and accretive acquisitions. In addition, management closely monitors commodity prices of oil and gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

The Company engaged Ryder Scott Petroleum Consultants ("Ryder Scott") to provide a reserve estimation based on an outlined drilling program. This resulted in the identification of both proven and proven plus probable reserves which have informed the design of Saturn's upcoming drilling program.

| | Three months ended December 31, | | Twelve months ended December 31, | |
|---|---|---|---|---|
| ($, except per unit amounts) | **2018** | **2017** | **2018** | **2017** |
| **Financial** | | | | |
| Oil revenue | 1,463,592 | 210,742 | 4,522,563 | 210,742 |
| Net loss | (1,415,443) | (1,853,906) | (1,523,123) | (2,398,968) |
| Per share – basic & diluted | (0.01) | (0.01) | (0.01) | (0.02) |
| **Production Volumes** | | | | |
| Crude oil (bbls/d) | 527 | 134 (1) | 255 | 134 (1) |
| Natural gas (Mcf/d) | - | - | - | - |
| Natural gas liquids (bbls/d) | - | - | - | - |
| Total (boe/d) | 527 | 134 (1) | 255 | 134 (1) |
| % liquids | 0% | 0% | 0% | 0% |
| **Average Realized Prices** | | | | |
| Crude Oil ($/bbl) | 30.20 | 50.67 | 48.52 | 50.67 |
| Natural gas ($/Mcf) | - | - | - | - |
| Natural gas liquids ($/bbl) | - | - | - | - |
| Total ($/boe) | 30.20 | 50.67 | 48.52 | 50.67 |
| **Operating Netback ($/boe)** | | | | |
| Realized price | 30.20 | 50.67 | 48.52 | 50.67 |
| Royalties | 1.22 | 10.02 | 4.99 | 10.02 |
| Operating costs | 14.15 | 11.50 | 13.32 | 11.50 |
| Operating netback | 14.82 | 29.16 | 30.22 | 29.16 |

1) Based on 31 producing days in 2017.

## SIGNIFICANT EVENTS

In July 2018, the Company closed a brokered private placement of flow-through common shares (the “Flow-Through Shares”) and both brokered and non-brokered non-flow-through units (the “Units”). The private placement consisted of 7,786,700 Flow-Through Shares at a price of $0.12 per Flow-Through Share and 25,852,800 Units at a price of $0.12 per Unit, for total gross proceeds of $4.04 million (the "Private Placement"). Each Unit consists of one common share (a "Common Share") of the Company and one common share purchase warrant (a "Warrant") exercisable into one Common Share of the Company at a price of $0.18 per Warrant for a period of 24 months.

In September 2018, the Company closed a USD $20 million senior secured revolving note facility (the “Notes”) with Prudential Capital Energy Partners, the middle-market energy mezzanine fund business sponsored by Prudential Capital Group. Under the terms of the Notes, Saturn elected and qualified for an initial issuance of Notes equal to approximately USD $4.6 million. At year end 2018, the Company had drawn USD $5.9 million on the Notes. The remaining balance of Notes issuable under the facility is subject to Saturn's satisfaction of applicable terms and conditions. The Notes offer a combined average coupon rate of approximately 15% per year, payable monthly in arrears, and will mature on September 14, 2022.

In November 2018, the Company closed a brokered private placement of flow-through common shares (the “Flow-Through Shares”) and brokered non-flow-through units (the “Units”). The private placement consisted of 8,333,333 Flow-Through Shares at a price of $0.24 per Flow-Through Share and 8,333,333 Units at a price of $0.24 per Unit, for total gross proceeds of $4 million (the "Private Placement"). Each Unit consists of one common share (a "Common Share") of the Company and one-half of a common share purchase warrant (a "Warrant") exercisable into one Common Share of the Company at a price of $0.30 per Warrant for a period of 24 months.

**2018 YEAR-END RESERVES**

**Proved Developed Producing ("PDP")**

- 492% increase over 2017 to 557.1 thousand barrels ("Mbbls")
- 320% increase on a per share (basic) basis
- 853% growth in net present value discounted at 10% (before tax) ("NPV10 BT") over 2017
- Replaced 497% of 2018 annual production
- Achieved Finding, Development and Acquisition ("FD&A") costs of $44.78/bbl including change in Future Development Capital ("FDC")
- Generated a recycle ratio of 0.94x based on 2018 average operating netbacks of $42.18/bbl

**Total Proved ("TP")**

- 323% increase over 2017 to 2,190.6 Mbbls
- 200% increase on a per share (basic) basis
- 769% growth in NPV10 BT over 2017
- Replaced 1,795% of 2018 annual production
- Achieved FD&A cost of $21.17/bbl including change in FDC
- Generated a recycle ratio of 1.99x based on 2018 average operating netbacks

**Total Proved + Probable ("TP+P")**

- 467% increase over 2017 to 4,554.9 Mbbls
- 302% increase on a per share (basic) basis
- 768% growth in NPV10 BT over 2017
- Replaced 4,025% of 2018 annual production
- Achieved FD&A cost of $20.56/bbl including change in FDC
- Generated a recycle ratio of 2.05x based on 2018 average operating netbacks

| **Reserves Summary** | **December 31,** | |
|---|---|---|
| | **2018** | **2017** |
| Proved developed producing (bbls) | 557,080 | 94,100 |
| Total proved (bbls) | 2,190,603 | 517,800 |
| Total proved plus probable (bbls) | 4,554,972 | 803,500 |
| Proved developed producing – NPV10[1] | 21,039,000 | 2,207,000 |
| Total proved – NPV10[1] | 47,348,000 | 5,447,200 |
| Total proved plus probable –NPV10[1] | 91,369,000 | 10,529,000 |

1) NPV 10 is net present value before tax cash flows discounted at 10%.

## ANNUAL OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Top-line revenue was $4.5 million in 2018, an increase of $4.3 million over 2017.

- Annual production averaged 255 barrels of oil per day ("bbls/d"), peaking at 1,000 bbls/d in November 2018 and exiting the year at 568 bbls/d. Given the widening of Canadian light oil differentials in the fourth quarter of 2018, Saturn elected to temporarily curtail December 2018 production. When Canadian light oil differentials narrowed significantly in January 2019, Saturn brought curtailed production back on line. The annual production increase was due to the Company's successful 2018 drilling program, partially offset by natural declines and the shut-in of one well in the Flaxcombe area.

- Net loss was $1.5 million in 2018 compared to $2.4 million in 2017. The decrease in net loss was primarily due to non-cash items: a $1.8 million increase in combined exploration and evaluation ("E&E") expenses, depletion and amortization, a $367,900 increase in unrealized losses on foreign exchange, and a $260,00 increase in share-based payments. In addition to the non-cash items, the Company recorded a $1.05 million increase in financing costs, and a $71,000 decrease in gain on the sale of investments. These costs were partially offset by a $215,800 decrease in the loss on the write-off of related party balances, a $2.7 million increase in operating revenues and a $1.75 million unrealized gain on warrant liability.

- Operating netbacks were $30.22/boe, a $1.06/boe improvement from 2017 due to a $5.03/boe decrease in royalties, partially offset by a $2.15/boe decrease in realized price and a $1.82/boe increase in operating costs.

- During the year, Saturn acquired 28.5 sections of land for $3.2 million for an average of $431.86 per hectare. At December 31, 2018 Saturn's land holdings totaled 40.5 gross sections, an increase of 28 sections from December 31, 2017 or 238%.

- Saturn successfully drilled, completed, equipped and tied-in ("DCET") a total of 17 100% working interest ("WI") wells and two 50% WI wells for a total DCET expenditures of $17.5 million, or approximately $1.09 million per well. The successful drilling of these wells allowed the Company to expand into four new development areas including four wells in Prairiedale, four wells in Milton, three wells in Kerrobert, and one well in Plato.

    - In Prairiedale, four 100% WI extended reach horizontal ("ERH") wells were drilled in 2018 with an area average IP30 of 98.2 bbls/d. The top producing well in the area was 101/13-06-03326W3 with an IP30 of 155 bbls/d. Five additional wells were drilled in Q1/2019.
    - In Milton, four 100% WI ERH wells were drilled in 2018 with an area average IP60 of 89 bbls/d. The top producing well in the area was 101/12-11-030-27W3 with an IP30 of 93.3 bbls/d. Two additional wells were drilled in Q1/2019.
    - In Kerrobert, three 100% WI ERH wells were drilled in 2018 with an area average IP30 of 41.4 bbls/d. The top producing well in the area was 103/05-28-031-24W3W3 with an IP30 of 58.3 bbls/d. Two additional wells were drilled in Q1/2019.
    - In Plato, one 100% WI ERH well was drilled in 2018 with an IP60 of 47.5 bbls/d on a well that has exhibited a reversal in its decline rate.

- At December 31, 2018, Saturn had US$5.87 million of borrowings (CAD$8.01 million converted at an exchange rate of $1.00 USD to $1.3642 CAD on December 31, 2018) drawn against the US$20.00 million Revolving Note (CAD$27.28 million using the year-end exchange rate).

## FOURTH QUARTER 2018 OPERATIONAL AND FINANCIAL HIGHLIGHTS

- Average production was 527 bbls/d, an increase of 293% from Q4/2017, peaking at 1,000 bbls/d in November 2018 and exiting the year at 568 bbls/d. Given the widening of Canadian / U.S. oil differentials late last year, Saturn elected to temporarily curtail December 2018 production. When Canadian oil differentials narrowed significantly in January 2019, Saturn brought curtailed production back on line.

- Net loss was $1.4 million in Q4/2018, compared to $1.8 million in the comparable quarter in 2017. The decrease in net loss was primarily due to non-cash items: a $404,500 increase in unrealized losses on foreign exchange, a $139,800 increase in share-based payments, and a $766,400 increase in combined E&E expenses, depletion and amortization. In addition to the non-cash items, the Company recorded a $333,000 increase in financing costs. These costs were partially offset by a $128,800 decrease in the write-off of related party balances owing and a $1.75 million unrealized gain on warrant liability.

- Operating netbacks were $14.82/boe, a decrease of $14.34/boe from 2017 due an increase in operating costs of $2.65/boe offset by a decrease in royalties of $8.80/boe. The most significant contributor to this decrease was the significant decline in WTI pricing and the widening oil price differential in the fourth quarter of 2018 which resulted in a realized price of $20.47/boe.

- Saturn successfully drilled, completed and brought on production eight 100% WI wells including two wells in Prairiedale, four wells in Milton, one well in Kerrobert, and one well in Plato. Saturn's successful program also included one 50% WI well in Whiteside.

## OUTLOOK

With continued volatility and uncertainty in Canadian oil and natural gas prices, coupled with the Company's ongoing commitment to enhance financial flexibility, Saturn believes it has developed a conservative budget that affords meaningful growth in the context of the broader commodity price environment while also supporting balance sheet strength and financial flexibility. Full-year 2019 guidance estimates are outlined in the table below.

| | |
|---|---|
| **Operational Assumptions** | |
| Annual average production (bbls/d) | 1,250 |
| 2019 exit production (bbls/d) | 2,000 |
| Capital expenditures (M$C) | 41,500 |
| Operating expenses ($/bbl) | 14.50 |
| General and administration ("G&A") expenses ($/bbl)) | 3.72 |
| **Pricing Assumptions** | |
| Oil (WTI) | US $60.24/bbl |
| Canadian light oil differential | US $-3.80/bbl |
| Exchange rate | 0.7497 USD/CAD |

## RESULTS OF OPERATIONS

### Production

| | Three months ended December 31, | | Twelve months ended December 31, | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Crude oil (bbls/d) | 527 | 134(1) | 255 | 134(1) |
| Natural gas (Mcf/d) | - | - | - | - |
| Natural gas liquids (bbls/d) | - | - | - | - |
| Total (boe/d) | 527 | 134(1) | 255 | 134(1) |
| % liquids | 0% | 0% | 0% | 0% |

1) Based on 31 producing days in 2017.

Annual production averaged 255 bbls/d, peaking at 1,000 bbls/d in November 2018 and exited the year at 568 bbls/d. Given the severe widening of Canadian / U.S. oil differentials in the fourth quarter of 2018, Saturn elected to temporarily curtail December 2018 production. When Canadian oil differentials narrowed significantly in January 2019, Saturn brought curtailed production back on line. The annual production increase was due to the Company's successful 2018 drilling program, partially offset by natural declines and the shut-in of one well in the Flaxcombe area.

**Revenue**

| | Three months ended December 31, | | Twelve months ended December 31, | |
|---|---|---|---|---|
| ($, except per unit amounts) | **2018** | **2017** | **2018** | **2017** |
| **Revenue** | | | | |
| Crude oil | 1,463,592 | 210,742[(1)] | 4,522,563 | 210,742[(1)] |
| Natural gas | - | - | - | - |
| Natural gas liquids | - | - | - | - |
| **Average Realized Prices** | | | | |
| Crude Oil ($/bbl) | 30.20 | 50.67 | 48.52 | 50.67 |
| Natural gas ($/Mcf) | - | - | - | - |
| Natural gas liquids ($/bbl) | - | - | - | - |
| Total ($/boe) | 30.20 | 50.67 | 48.52 | 50.67 |
| **Operating Netback ($/boe)** | | | | |
| Realized price | 30.20 | 50.67 | 48.52 | 50.67 |
| Royalties | 1.22 | 10.02 | 4.99 | 10.02 |
| Operating costs | 14.15 | 11.50 | 13.32 | 11.50 |
| Operating netback | 14.82 | 29.16 | 30.22 | 29.16 |

(1) Based on 31 producing days in 2017.

Saturn's fourth quarter revenue increased 594%, or $1,252,850 from the fourth quarter 2017, which reflects the impact of a full quarter of production in 2018 and more wells online than the same period the prior year. Through 2018, ongoing transportation constraints in western Canada resulted in the Canadian crude oil benchmark price trading at a discount to the WTI benchmark price, with a severe widening of this price differential impacting Canadian producers through much of the fourth quarter of 2018. This resulted in the Canadian benchmark prices for both heavy and light grades of oil to deteriorate significantly during the quarter. Due to these unfavorable market conditions, Saturn elected to preserve value by curtailing production volumes and deferring the drilling of eight wells originally budgeted for Q4/2018.

Saturn's 2018 annual revenue increased 1,552%, or $4.3 million from 2017. This is primary due to new production coming on stream as a result of drilling 17 100% WI wells and two 50% WI wells during the year, and the impact of recording a full year of production volumes compared to only 31 days in 2017.

**Royalties**

| | Three months ended December 31, | | Twelve months ended December 31, | |
|---|---|---|---|---|
| ($, except per unit amounts) | **2018** | **2017** | **2018** | **2017** |
| Royalties | 59,356 | 41,656 | 463,370 | 41,656 |
| Per boe | 1.22 | 10.02 | 4.99 | 10.02 |
| Percentage of revenue | 4.1% | 19.8% | 10.3% | 19.8% |

Saturn pays royalties to the Saskatchewan government and landowners in accordance with the established royalty regime. At the beginning of 2018, a significant portion of the royalties paid to landowners were freehold, which are paid at a much higher percentage than Crown royalties paid to the Saskatchewan government. As the Company drilled more wells on Crown land, royalties as a percentage of revenue decreased, which was demonstrated throughout 2018.

**Operating Netback**

| ($ per boe) | Three months ended December 31, 2018 | 2017 | Twelve months ended December 31, 2018 | 2017 |
|---|---|---|---|---|
| Revenue | 30.20 | 50.67 | 48.52 | 50.67 |
| Royalties | (1.22) | (10.02) | (4.99) | (10.02) |
| Operating costs | (14.15) | (11.50) | (13.32) | (11.50) |
| Operating netback | 14.82 | 29.16 | 30.22 | 29.16 |

Saturn's operating netback for the fourth quarter of 2018 decreased by $14.34/boe relative to the same period in 2017. The most significant contributor was the decline in WTI price during the period coupled with the severe widening of oil differentials which reduced the Company's realized price by $20.47/boe, net of an $8.80/boe decrease in royalties.

Saturn's annual operating netback was $30.22/boe, a $1.06/boe improvement over 2017 due to a $5.03/boe decrease in royalties, partially offset by a $2.15/boe decrease in realized price and a $1.82/boe increase in operating costs.

**Share-based Compensation**

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 24,725,000 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's common shares on the grant date. The options can be granted with a maximum term of five years. Options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter following the grant date.

During 2018, the Company issued 7,050,000 options to officers and employees having a weighted average exercise price of $0.19 per option.

**Revolving Facility**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Prudential Capital Energy Partners, L.P. | $ 7,336,038 | $ - |
| Prudential Capital Energy Partners Management Fund | 678,139 | - |
| Loan financing costs | (5,969,938) | - |
| | $ 2,044,239 | $ - |

On September 14, 2018, the Company entered into a US $20 million secured reserved based revolving note facility ("Revolving Facility") from Prudential Capital Energy Partners, L.P. and Prudential Capital Energy Partners Management Fund. As at December 31, 2018, the Company has drawn US$5.9 million (CDN$8.0 million equivalent using the December 31, 2018 exchange rate) under the Revolving Facility. Commencing October 12, 2018, on or before the tenth business day of each calendar month, the Company shall repay the facility by an amount equal to (i) 100% of net proceeds of production for such month less, without duplication, general and administrative ("G&A") costs for such month in an amount such that the total for such month and such fiscal year shall not exceed the G&A costs cap, plus (ii) all proceeds from any sales and other dispositions of oil and gas properties. Interest is paid monthly at the U.S. prime rate plus 10.75% per annum.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of the Company's oil properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is subject to a quarterly redetermination.

The revolving facility is secured by a senior security agreement in favor of the note holders valid and enforceable liens, subject only to permitted encumbrances, on all right, title and interest of the respective Company. The Facility is due September 22, 2022.

As at December 31, 2018, $822,604 of deferred loan financing costs related to the revolving facility were netted against its carrying value. The Company also issued 30,505,122 warrants related to the revolving facility were determined be derivatives have been recognized as liability as the warrant holder has the option to exercise without providing cash, it receive the net out of shares by on the Company share price.  The warranty liability was determined have a fair value of $5,147,334 at inception, using the black scholes model and the assumptions noted below. The warrants have been recognized as part of loan financing costs and corresponding amount has been included in warrant liability. At December 31, 2018 the warrant liability was adjusted to its fair value based on the assumptions noted below. This resulted in a $1,750,000 reduction of the warrant liability and a corresponding gain recognized in the profit or loss. The warrants were valued using a Black Scholes model based on the following assumptions: exercise prices of $0.24, terms of maturity date of September 15, 2022, volatility of 94%, dividend yield Nil and risk-free interest rates of 1.88% to 2.23%. At December 31, 2018, $64,730 in deferred loan financing costs related to the revolving facility have been amortized.

**Covenants**

The note purchase agreement for the revolving facility contains various covenants on the part of the Company including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions.  The financial covenants are as follows:

- total leverage ratio, pursuant to which the ratio of adjusted indebtedness to EBITDAX for the four quarters most recently ended (at December 31, 2018 the previous two quarters multiplied by two) cannot exceed 3.5 to 1.0;

  EBITDAX is defined as for any period with respect to the Company and its consolidated Subsidiaries, without duplication, (a) Consolidated Net Income for such period plus (b) to the extent deducted in determining Consolidated Net Income, Financing Charges, exploration expenses, income taxes, depreciation, depletion, amortization and other non-cash items of expense for such period (including any provision for the reduction in the carrying value of assets recorded in accordance with GAAP and including non-cash charges resulting from stock based compensation and write downs on assets and non-cash losses resulting from the Hedge Termination Value of outstanding Hedging Transactions) for such period, losses attributable to extraordinary and non-recurring losses for such period minus (c) all non-cash items of income which were included in determining such Consolidated Net Income (including non-cash gains resulting from the Hedge Termination Value of outstanding Hedging Transactions) and earnings attributable to extraordinary and non-recurring gains for such period; provided that such EBITDAX shall be subject to pro forma adjustments for Material Acquisitions and Material Dispositions assuming that such transactions had occurred on the first day of the applicable calculation.

- interest coverage, pursuant to which the ratio of EBITDAX for the four quarters most recently ended (at December 31, the previous two quarters multiplied by two) to financing charges to be less than 2.25 to 1.00;

- asset coverage, pursuant to the adjusted PV10 to indebtedness to be less than 1.35 to 1.00.

  PV 10 is defined as at any time, the discounted future net revenue from Proved Oil and Gas Properties at such time, as reflected in the most recent determination thereof certified by a Responsible Officer and delivered by the Company as applicable, and calculated using Average Strip Pricing and adjusted to reflect (a) Specified Assumptions and (b) the full effect of Hedging Transactions of the Company and its Subsidiaries; provided that not less than 70% of such discounted future net revenue shall be from PDP Reserves.

The Company was in breach of the total leverage ratio at December 31, 2018 and has obtained a waiver for this breach. The Company has obtained waivers for the quarters ending March 31, 2019 and June 30, 2019 and has projected to be onside after this period.

**Finance Costs**

| ($, except per unit amounts) | Three months ended December 31, 2018 | 2017 | Twelve months ended December 31, 2018 | 2017 |
|---|---|---|---|---|
| Interest expenses | 320,123 | 73,258 | 668,701 | 96,932 |
| Loan structuring costs | 59,141 | - | 487,251 | - |
| Total finance cost | 379,264 | 73,258 | 1,155,952 | 96,932 |
| Per boe | 12.42 | 23.33 | 7.91 | 17.64 |

Interest expense is primarily comprised of the interest incurred on the Company's revolving notes and convertible notes. Interest expense increased $246,900 in the fourth quarter of 2018 compared to the fourth quarter of 2017, and increased $571,800 for the year ended December 31, 2018 compared to the prior year. The respective increases can be attributed to increased average borrowings as well as increased interest paid on the Revolving Facility. Loan structuring costs relate to the expensed portion of deferred loan structing fees paid on the Revolving Facility that were taken on during 2018.

**Gain Loss on Foreign Exchange**

| ($) | Three months ended December 31, 2018 | 2017 | Twelve months ended December 31, 2018 | 2017 |
|---|---|---|---|---|
| Realized gain (loss) on foreign exchange | 627,099 | - | 1,707,499 | - |
| Unrealized gain (loss) on foreign exchange | (1,031,626) | - | (2,075,381) | - |
| Gain (loss) on foreign exchange | (404,527 | - | (367,882) | 96,932 |

Foreign exchange gains (losses) incurred in the three months and year ended December 31, 2018 and December 31, 2017 related largely to borrowings denominated in US dollars.

**Net Debt**

Net debt is calculated as the sum of the long-term debt and lease obligation, less working capital (or plus working capital deficiency). Saturn believes that net debt is a useful supplemental measure of the total amount of current and long-term debt of the Company. Net debt is a "non-IFRS measure" and therefore may not be comparable to similar measures used by other companies.

| ($) | December 31, 2018 | 2017 |
|---|---|---|
| Revolving notes | 2,044,239 | - |
| Warrant liability | 3,397,334 | - |
| Convertible notes | 2,332,659 | 1,253,746 |
| Total debt | 7,774,232 | 1,255,746 |
| Working capital: | | |
| Current assets | 1,145,901 | 1,173,337 |
| Less current liabilities | 12,594,368 | 4,512,116 |
| Working capital deficiency/(surplus) | 11,448,467 | 3,338,779 |
| Net debt | 19,222,699 | 4,431,707 |

**Related Party Transactions**

During the year ended December 31, 2018, the Company incurred the following transactions with directors, officers and other key management personnel:

| Compensation | | Years ended December 31, 2018 | | 2017 |
|---|---|---|---|---|
| Accounting | $ | - | $ | 18,000 |
| Consulting and geological in exploration and evaluation assets | | 316,813 | | 4,000 |
| Consulting expense | | 18,675 | | 99,395 |
| Key management compensation | | 893,333 | | 750,883 |
| Legal fees | | 52,984 | | 29,928 |
| Legal fees in loan structuring costs | | 5,733 | | - |
| Legal fees in share issuance costs | | 101,886 | | - |
| Share based payments | | 813,600 | | 549,008 |
| Total | $ | 2,203,115 | $ | 1,451,214 |

As at December 31, 2018, the Company owed $268,954 (December 31, 2017 - $299,729) to its directors, officers, other key management personnel of the Company, or companies controlled by officers of the Company.

## RISKS AND UNCERTAINTIES

*Factors beyond Saturn's control may determine whether any oil and gas reserves the Company discovers are sufficiently economic to be developed.*

The determination of whether oil and gas deposits are economic is affected by numerous factors beyond Saturn's control. These factors include market fluctuations for oil and gas; the costs of access and surface rights; and government regulations governing prices, taxes, royalties, land tenure, land use, importing and exporting of resources and environmental protection.

*Land reclamation requirements for exploration and development properties may be burdensome.*

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on oil and gas companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with ongoing exploration and development, Saturn must allocate financial resources that might otherwise be spent on further exploration and development programs.

*Saturn faces industry competition for the acquisition of exploration and development properties and the recruitment and retention of qualified personnel.*

Saturn competes with other exploration companies, many of which have greater financial resources or are further along in their development, for the acquisition of oil and gas leases and as well as for the recruitment and retention of qualified employees and other personnel. If Saturn requires and is unsuccessful in acquiring additional properties or personnel, the Company will not be able to grow at the rate desired.

Capital management

The Company manages its capital to safeguard Saturn's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in share capital as capital. The Company manages its capital structure and makes adjustments based on changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at December 31, 2018, the Company was not subject to externally imposed capital requirements.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2018, the Company had $140,722 (December 31, 2017 - $747,241) in cash and cash equivalents and $12,594,368 (December 31, 2017 - $4,512,116) in current liabilities. The Company is exposed to liquidity risk.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing accounts payable and accrued liabilities in conjunction with its daily cash position.

The following are the expected maturities of its financial liabilities as at December 31, 2018:

| | | <1 Year | | 1-2 Years | | >2 Years |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 12,594,368 | $ | - | $ | - |
| Convertible notes | | - | | 2,332,659 | | - |
| Revolving notes | | - | | - | | 6,351,573 |

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated revolving notes. A 10% strengthening or weakening of the US dollar will contribute a $799,000 increase or decrease to the Company's net loss before tax (2017 – NIL). The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

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 interest charged on the Revolving Facility fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Facility.

A change in prime interest rates by 1% would have changed net loss by approximately $19,000 in 2018 (2017 – NIL) assuming all other variables remain constant.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

Saturn manages the above risks by:

- maintaining strict environmental, safety and health practices;
- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to maximize opportunities; and
- employing risk management instruments to minimize exposure to volatility of commodity prices.

## Changes in Internal Control over Financial Reporting ("ICFR")

In connection with National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings ("NI 52-109") adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

## USE OF ESTIMATES

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) The recoverability of amounts receivable and due from related parties which is included in the statement of financial position;

b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;

c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants;

d) Fair values of petroleum and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

e) Amounts recorded for asset retirement obligation liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk-free discount rate used.; and

f) In the determination of fair value for promissory and convertible notes, the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, Saturn seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry.

g) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow-through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.

*Critical accounting judgments*

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements include, but are not limited to, the following:

h) Going concern of operations;

i) Determination of categories of financial assets and liabilities;

j) Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment; and

k) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based partially on proved and probable reserves.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## PROPOSED TRANSACTIONS

In the normal course of business, the Company evaluates property acquisition or disposition transactions and, in some cases, makes proposals to acquire or dispose of such properties. These proposals, which are usually subject to Board, regulatory and, sometimes, shareholder approvals, may involve future payments, share issuances and property work commitments. These future obligations are usually contingent in nature, and generally the Company is only required to incur the obligation if it wishes to continue with the transaction. As of the date of this report, the Company has a number of possible transactions that it is examining. Management is uncertain whether any of these proposals will ultimately be completed.

## SUBSEQUENT EVENTS

Subsequent to the year December 31, 2018, the Company:

- Issued 13,200 shares on exercised warrants at a price of $0.12 per warrant.
- Issued 1,400,000 shares on exercised stock options at a price of $0.15 per option.
- Issued 1,500,000 shares on the partial conversion of a note payable at $0.15 per share.
- Received proceeds of USD $11,625,000 from the Revolving Notes. Repaid USD $228,200.
- Acquired an additional 2,720 hectares of petroleum and natural gas rights in Saskatchewan for $559,230.
- Acquired an additional 130 hectares of petroleum and natural gas rights in Alberta for $30,000.
- Successfully drilled, completed, and tied in nine extended reach horizontal Viking wells in the Milton, Kerrobert, and Prairiedale areas of Saskatchewan.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

## OTHER MD&A REQUIREMENTS

Additional disclosure of the Company's technical reports, material change reports, news releases and other information can be obtained on the SEDAR website at www.sedar.com and the Company's website at www.saturnoil.com.

## DIRECTORS AND OFFICERS

As of the date of this report the Company had the following directors and officers:

| | |
|---|---|
| John Jeffrey | – *Chief Executive Officer and Director* |
| Scott Newman | – *Chief Operating Officer and Director* |
| Geoff Jones | – *Chief Financial Officer* |
| Ivan Bergerman | – *Director* |
| Calvin J. Payne | – *Director* |
| Christopher Ryan | – *Director* |
| Simon Akit | – *Director* |
| Justin Kaufmann | – *Vice President of Exploration* |
| Stuart Houle | – *Vice President of Operations and Engineering* |

## FORWARD-LOOKING INFORMATION

Certain information in this MD&A, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information may include, but is not limited to, information which reflect management's expectations regarding the Company's future growth, results of operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities. Often, this information includes words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

In making and providing the forward-looking information included in this MD&A the Company's assumptions may include among other things: (i) assumptions about the price of base metals; (ii) that there are no material delays in the optimisation of operations at the properties; (iii) assumptions about operating costs and expenditures; (iv) assumptions about future production and recovery; (v) that there is no unanticipated fluctuation in foreign exchange rates; and (vi) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) decreases in the price of base metals; (ii) the risk that the Company will continue to have negative operating cash flow; (iii) the risk that additional financing will not be obtained as and when required; (iv) material increases in operating costs; (v) adverse fluctuations in foreign exchange rates; and (vi) environmental risks and changes in environmental legislation.

This MD&A (See "Risks and Uncertainties") contains information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward looking information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.

## RECENT ACCOUNTING POLICIES

Please refer to the December 31, 2018 audited financial statements on www.sedar.com.

## FINANCIAL INSTRUMENTS

Please refer to the December 31, 2018 audited financial statements on www.sedar.com.