



SATURN OIL & GAS INC.

CONDENSED INTERIM FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Unaudited – Prepared by Management)
(In Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SATURN OIL & GAS INC.
STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

		March 31	December 31
	Note	2019	2018
ASSETS			
Current			
Cash and cash equivalents		\$ 1,646,038	\$ 140,722
Amounts receivable	4	2,582,151	973,178
Marketable securities	5	28,800	32,000
Total current		4,256,989	1,145,901
Non-current			
Deposits and prepayments		253,135	206,878
Property, plant and equipment	6	33,327,071	25,043,606
Exploration and evaluation assets	7	4,685,607	3,547,016
Total non-current		38,265,813	28,797,501
Total assets		\$ 42,522,802	\$ 29,943,401
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	8	\$ 8,375,398	\$ 11,831,999
Promissory note	9	764,795	762,370
Total current		9,140,192	12,594,369
Non-current			
Asset retirement obligation	10	1,698,616	1,478,872
Convertible notes	11	1,676,944	2,332,659
Revolving notes	12	16,945,288	2,044,239
Warrant liability	13	2,238,452	3,397,334
Total non-current		22,559,300	9,253,104
Total liabilities		\$ 31,699,492	\$ 21,847,473
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	15	32,751,637	31,781,840
Equity reserves	14,15	7,499,293	7,290,415
Contributed capital on convertible debt		134,712	224,780
Deficit		(29,562,330)	(31,201,106)
Total shareholders' equity (deficiency)		10,823,311	8,095,928
Total liabilities and shareholders' equity (deficiency)		\$ 42,522,803	\$ 29,943,401
Nature and Continuation of Operations (Note 1)			
Contingencies and Commitments (Note 17)			

Approved by the board of Directors on May 6, 2019

"John Jeffrey"

Director

"Scott Newman"

Director

SATURN OIL & GAS INC.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

		Three months ended	
		March 31,	
	Note	2019	2018
REVENUE			
Oil revenue		\$ 4,579,854	\$ 1,094,577
Royalties		(176,225)	(157,970)
Oil revenue, net of royalties		4,403,629	936,607
Realized loss on derivative instruments		(29,438)	-
		4,374,192	936,607
EXPENSES			
Operating		\$ 829,437	\$ 197,579
Accounting and auditing	14	15,282	5,118
Administration, office and rent		74,527	43,151
Advertising, promotion and public relations		49,346	19,123
Amortization and depletion	6	1,509,420	126,299
Consulting	14	23,000	32,183
Filing fees		4,545	22,234
Insurance		10,932	6,669
Legal fees	14	31,101	3,804
Salaries and benefits	14	163,869	100,000
Share based payments	14,15	208,878	174,267
Travel and accommodation		34,692	8,349
		(2,955,028)	(738,776)
		1,419,164	197,831
Foreign exchange loss		(72,723)	-
Gain on settlement of accounts payable		-	137,284
Interest on long-term debt		(729,779)	(78,204)
Loan structuring costs	12	(70,203)	-
Loss on abandonment liability		(63,365)	-
Unrealized gain (loss) on marketable securities	5	(3,200)	3,200
Unrealized gain on warrant liability	13	1,158,882	
Income and comprehensive income for the period		\$ 1,638,776	\$ 260,111
Basic and diluted income per share		\$ 0.01	\$ 0.00
Weighted average number of shares outstanding		229,276,113	150,705,541

SATURN OIL & GAS INC.
STATEMENTS OF CASHFLOWS
(EXPRESSED IN CANADIAN DOLLARS)
PERIODS ENDED MARCH 31,

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year	\$	1,638,776	\$ 260,111
Items not affecting cash:			
Unrealized gain on warrant liability		(1,158,882)	-
Amortization and depletion		1,509,420	125,186
Accretion on asset retirement obligation		(141,907)	1,284
Share-based payments		208,878	174,267
Write-off of exploration and evaluation and producing assets		-	(137,284)
Unrealized loss (gain) on marketable securities		3,200	(3,200)
Accretion on convertible debt		(21,230)	35,103
Accrued interest on promissory note		2,425	1,625
Changes in non-cash working capital items:			
Accounts receivable		(1,608,973)	(323,539)
Accounts payable and accrued liabilities		(3,456,600)	1,855,285
Net cash used in operating activities		(3,024,893)	1,988,838
CASH FLOWS FROM FINANCING ACTIVITIES			
Due to/from related parties		-	83,930
Share issuance costs		(8,800)	-
Shares issued on conversion of note		42,459	-
Proceeds from stock options exercised		210,000	-
Proceeds from warrants exercised		1,584	-
Proceeds from promissory note		-	750,000
Proceeds from revolving note		15,379,335	-
Revolving note closing costs		(173,217)	-
Repayment of revolving note		(305,070)	-
Net cash provided by financing activities		15,146,291	833,930
CASH FLOWS FROM INVESTING ACTIVITIES			
Deposit		(46,257)	(153,502)
Additions to property, plant and equipment		(9,431,235)	(5,832)
Change in exploration and evaluation assets		(1,138,591)	(3,092,926)
Net cash used in investing activities		(10,616,083)	(3,252,260)
Change in cash		1,505,315	(429,626)
Cash, beginning of period		140,722	747,241
Cash, end of period	\$	1,646,037	\$ 317,615

SATURN OIL & GAS INC.
STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Share Capital	Equity reserves	Convertible Debt	Deficit	Total
Balance as at December 31, 2017	\$ 161,574,163	\$ 22,557,231	\$ 6,049,425	\$ 314,692	\$ (29,677,983)	\$ (756,635)
Private Placements, cash	-	-	-	-	-	-
Private Placements, shares for debt	-	-	-	-	-	-
Share issuance costs	-	-	-	-	-	-
Share-based payments	-	-	174,267	-	-	174,267
Contributed capital on convertible debt	-	-	-	-	-	-
Unrealized gain on available-for-sale investments	-	-	-	-	-	-
Loss for the period	-	-	-	-	260,111	260,111
Balance as at March 31, 2017	\$ 161,574,163	\$ 22,557,231	\$ 6,223,692	\$ 314,692	\$ (29,417,872)	\$ (322,257)
Balance as at December 31, 2018	\$ 227,963,015	\$ 31,781,840	\$ 7,290,415	\$ 224,780	\$ (31,201,106)	\$ 8,095,928
Share issuance costs	-	(8,800)	-	-	-	(8,800)
Shares issued, exercised warrants	13,200	1,584	-	-	-	1,584
Shares issued, exercised stock options	1,400,000	210,000	-	-	-	210,000
Shares issued, converted note	5,000,000	767,013	-	(90,068)	-	676,945
Share-based payments	-	-	208,878	-	-	208,878
Income for the period	-	-	-	-	1,638,776	1,638,776
Balance as at March 31, 2018	\$ 234,376,215	\$ 32,751,637	\$ 7,499,293	\$ 134,712	\$ (29,562,330)	\$ 10,823,311

SATURN OIL & GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2019

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. was incorporated under the Laws of British Columbia on August 16, 2001. 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 of its oil & gas properties in west-central Saskatchewan.

The Company's corporate headquarters are at 207 9 Ave SW, #1000, Calgary, AB, T2P 1K3. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange ("TSXV") and trade under the symbol "SOIL".

Saturn is an independent oil gas exploration, development and production company. The Company's reserves, producing properties and exploration prospects are located primarily in the Saskatchewan. Saturn conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these unaudited interim financial statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

2. BASIS OF PREPARATION

Statement of compliance

These condensed interim financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of March 31, 2019.

Basis of presentation

The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available-for-sale, which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars, which is the Company's functional currency, unless otherwise specified.

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:

SATURN OIL & GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2019

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

- 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 convertible notes, the Corporation 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, the Corporation 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:

- a) Going concern of operations; and
- b) Determination of categories of financial assets and liabilities.
- c) 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.
- d) 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.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2019****(UNAUDITED – PREPARED BY MANAGEMENT)****(EXPRESSED IN CANADIAN DOLLARS)**

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at December 31, 2018. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018.

New accounting standards and interpretation

IFRS 16 – Leases. According to IFRS 16, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Saturn on January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings.

The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach and applying certain practical expedients available upon transition. Saturn intends to apply a practical expedient that allows the Company to apply a recognition exemption for leases with remaining lease terms of less than 12 months and leases of low value on the transition date. The payments of these leases will be disclosed in the notes to the financial statements. The Company also intends to apply a practical expedient which allows the right-of-use asset recognized on transition to equal the lease liability recorded versus recognizing the carrying amount of the right-of-use asset as if IFRS 16 had been applied since the commencement date of the lease. This practical expedient is available on a lease by lease basis and Saturn intends to apply it to leases that are not individually significant. In addition, any provision for onerous contracts previously recognized will be applied to the associated right-of-use asset recognized upon transition to IFRS 16 on transition date. In these cases, there will be no impairment assessment made under IAS 36 - Impairment of Assets.

The Company is in the process of quantifying the impact of the contracts that falls within the scope of the new standard. The Company expects the adjustments to be nominal and they have not been reflected in these statements.

4. AMOUNTS RECEIVABLE

	March 31, 2019	December 31, 2018
Accounts receivable	\$ 2,347,026	\$ 402,589
GST receivable	235,125	570,589
	\$ 2,582,151	\$ 973,178

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2019****(UNAUDITED – PREPARED BY MANAGEMENT)****(EXPRESSED IN CANADIAN DOLLARS)****5. MARKETABLE SECURITIES**

	Shares
Balance, December 31, 2017	\$ 22,400
Change in fair value	(9,600)
Balance, December 31, 2017	32,000
Change in fair value	(3,200)
Balance, March 31, 2018	\$ 28,800

During the year ended December 31, 2015, the Company received 500,000 shares of Glacier Lake Resources Inc. (formerly Killdeer Minerals Inc.), a company related through common officers and directors for settlement of \$37,500 of debt. During year ended December 31, 2017 the Company disposed of 180,000 shares for a realized gain of \$4,701. Unrealized gains and losses on market fluctuations for the shares are recognized in profit or loss.

6. PROPERTY, PLANT AND EQUIPMENT

	Producing assets	Other assets	Total
Cost:			
Balance, December 31, 2018	\$ 26,997,987	\$ 118,460	\$ 27,116,447
Additions	9,748,530	44,355	9,792,885
Balance, March 31, 2019	\$ 36,746,517	\$ 162,815	\$ 36,909,332
Accumulated amortization:			
Balance, December 31, 2017	\$ 2,047,251	\$ 25,590	\$ 2,072,841
Depletion	1,499,314	-	1,499,314
Amortization expense	-	10,106	10,106
Balance, March 31, 2018	\$ 3,546,565	\$ 35,696	\$ 3,582,261
Balance, December 31, 2018	\$ 24,950,736	\$ 92,870	\$ 25,043,606
Balance, March 31, 2019	\$ 33,199,952	\$ 127,119	\$ 33,327,071

As at March 31, 2019, an estimated \$75.0 million (December 31, 2018 – \$84.5 million) in future development costs associated with proved plus probable undeveloped reserves were included in the calculated of depletion.

During the period ended March 31, 2019, the Company transferred \$9,386,879 (December 31, 2018 - \$23,441,283) from exploration and evaluation. The Company tested for impairment immediately preceding the transfer of exploration and evaluation assets to property, plant and equipment during the period ended March 31, 2019. The Company determined that there was no impairment.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2019****(UNAUDITED – PREPARED BY MANAGEMENT)****(EXPRESSED IN CANADIAN DOLLARS)****7. EXPLORATION AND EVALUATION ASSETS**

Although the Company has taken steps to verify title to mineral exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

	Period ended March 31, 2019	Year ended December 31, 2018
Beginning balance	\$ 3,547,016	\$ 1,510,814
Additions	10,525,470	25,477,485
	14,072,486	27,036,567
Transfer to producing assets	(9,386,879)	(23,441,283)
Ending balance	\$ 4,685,607	\$ 3,547,016

During the year period ended March 31, 2019, Saturn capitalized \$97,833 (December 31, 2018 – \$211,905) of directly attributable general administrative expenses to E&E assets.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2019	December 31, 2018
Accounts payable	\$ 8,142,957	\$ 11,654,940
Accrued liabilities	15,000	18,018
Interest payable	217,441	159,041
	\$ 8,375,398	\$ 11,831,999

During the period ended March 31, 2018, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of NIL (December 31, 2018 - \$194,093).

9. PROMISSORY NOTE

During the year ended December 31, 2016, the Company received proceeds from a promissory note of \$100,000 from a third party. The promissory note bears an interest of 5% per annum and was payable on January 31, 2017.

During the year ended December 31, 2017, the Company received additional proceeds of \$200,000 from the third party. The promissory note is secured by the Company's marketable securities and investments.

During the year ended December 31, 2017, the Company repaid \$265,616 promissory note payable including accrued interest to the third party.

During the year ended December 31, 2018, the Company received proceeds from promissory notes in the amount of \$750,000 from a third party. The promissory note bears an interest of 2% per annum and is payable on demand.

During the year ended December 31, 2018, the Company received proceeds from promissory notes in the amount of \$2,750,000 from a third party bearing interest at 17.5% per annum. The promissory note was repaid in full during the year.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2019****(UNAUDITED – PREPARED BY MANAGEMENT)****(EXPRESSED IN CANADIAN DOLLARS)**

	March 31, 2019	December 31, 2018
Balance, beginning of year	\$ 762,370	\$ 45,161
Proceeds	-	3,500,000
Repayment	-	(2,893,100)
Interest	2,425	110,309
Balance, end of period	\$ 764,795	\$ 762,370

10. ASSET RETIREMENT OBLIGATION

	March 31, 2019	December 31, 2018
Balance, beginning of year	\$ 1,478,872	\$ 268,873
Asset retirement obligation	214,151	1,200,231
Accretion	5,593	9,768
Balance, end of year	\$ 1,698,616	\$ 1,478,872

The asset retirement obligation is costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be \$1,678,219 (December 31, 2018 - \$1,464,068). These obligations have been discounted using a risk free rate of 2.18% and an inflation rate of 1.9% per year.

11. CONVERTIBLE NOTE

- a) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,000,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.10 per share, at the option of the holder.

Assumptions used in determining the equity portion of the convertible note were a term of one year and a interest rate of 12% if there were no conversion rights.

On May 15, 2018, the convertible note was amended to extend the maturity date, including the conversion term, from May 15, 2018 to January 31, 2020. The other terms of the convertible note remained unchanged. The assumptions used in determining the liability portion of the extended convertible note were a term of 1.7 year and an interest rate of 15% if there were no conversion rights. The assumptions used in determine equity component were an exercise price of \$0.10, a term of 1.7 years, a risk free rate of 1.88%, a volatility of 85% and dividend yield of Nil. The resulted in a value of \$660,000 that was recognized in the statement of equity. The settlement of the original equity component the statement of equity was reduced by \$660,000, for net impact of \$Nil. The settlement of the original liability component resulted in a nominal gain.

- b) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,500,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum.

SATURN OIL & GAS INC.**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2019****(UNAUDITED – PREPARED BY MANAGEMENT)****(EXPRESSED IN CANADIAN DOLLARS)**

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder.

Assumptions used in determining the equity portion of the convertible note were a term of three years and a interest rate of 12% if there were no conversion rights.

	March 31, 2019	December 31, 2018
Balance, beginning of year	\$ 2,332,659	\$ 3,226,349
Converted to shares	676,945	(1,000,000)
Accretion	21,230	106,310
Balance, end of year	<u>\$ 1,676,944</u>	<u>\$ 2,332,659</u>

12. REVOLVING FACILITY

	December 31, 2018	December 31, 2017
Prudential Capital Energy Partners, L.P.	\$ 20,527,319	\$ 7,336,038
Prudential Capital Energy Partners Management Fund	2,561,122	678,139
Loan financing costs	<u>(6,143,153)</u>	<u>(5,969,938)</u>
	<u>\$ 16,945,288</u>	<u>\$ 2,044,239</u>

On September 14, 2018, the Company entered into a US \$20 million secured reserved based revolving note facility (“Revolving Facility”). As at March 31, 2019, the Company has drawn US\$ 17.27 million (December 31, 2018 - US\$5.9 million, or CDN \$23.09 million equivalent using the March 31, 2019 exchange rate (December 31, 2018 - CDN\$8.0 million) 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, with the next redetermination scheduled for July 2019.

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.

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THREE MONTHS ENDED MARCH 31, 2019

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

As at March 31, 2019, \$995,821 (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 March 31, 2019, the warrant liability was adjusted to its fair value based on the assumptions noted below. This resulted in a \$1,158,882 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%. During the period ended March 31, 2019, \$70,203 (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 March 31, 2019, the previous three quarters multiplied by four and then divided by three) 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 four and then divided by three) 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.

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

13. WARRANT LIABILITY

	March 31, 2019	December 31, 2018
Beginning balance,	\$ 3,397,334	\$ -
Additions	-	5,147,334
Change in fair value	(1,158,882)	(1,750,000)
	\$ 2,238,452	\$ 3,397,334

14. RELATED PARTY TRANSACTIONS

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

	Three months ended March 31,	
	2019	2018
Consulting and geological in exploration and evaluation assets	124,237	49,969
Key management compensation	92,500	100,000
Legal fees	22,508	3,804
Share based payments	146,521	121,690
Total	\$ 385,766	\$ 275,463

15. SHARE CAPITAL AND EQUITY RESERVESAuthorized

Unlimited common shares without par value.

During the period ended March 31, 2019, the Company

- Issued 13,200 shares on exercised warrants at a weighted average of price \$0.12 per warrant.
- Issued 1,400,000 shares on exercised stock options at a weighted average price of \$0.15 per option.
- Issued 5,000,000 shares on the conversion of a note payable at a price of \$0.15 per share.

During the year ended December 31, 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 in the aggregate 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.

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- e) 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 in the aggregate 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.
- f) Issued 7,915,564 shares on exercised warrants at a weighted average of price \$0.16 per warrant.
- g) Issued 300,000 shares on exercised stock options at a weighted average price of \$0.19 per option.
- h) Issued 6,66,667 shares on the conversion of a note payable plus 367,123 to settle accrued interest at a price of \$0.15 per share.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, December 31, 2017	10,181,772	\$ 0.16
Granted	64,645,242	0.21
Exercised	(7,915,564)	0.16
Expired	(2,449,800)	0.16
Balance, December 31, 2018	64,461,650	0.21
Exercised	(13,200)	0.12
Balance, March 31, 2018	64,448,450	\$ 0.21

As at March 31, 2018, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
May 11, 2019	859,375	\$ 0.15
June 7, 2020	11,123,500	\$ 0.18
July 3, 2020	2,047,270	\$ 0.18
July 18, 2020	12,562,634	\$ 0.18
July 18, 2020	1,550,551	\$ 0.12
November 16, 2020	4,583,332	\$ 0.30
September 14, 2022	30,505,122	\$ 0.24
November 16, 2022	1,216,666	\$ 0.24
	64,448,450	

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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 29,042,043 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 stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, December 31, 2017	21,460,000	\$ 0.12
Granted	7,050,000	0.19
Exercised	(300,000)	0.19
Forfeited/expired	(3,935,000)	0.18
Balance, December 31, 2018	24,275,000	0.13
Granted	800,000	0.20
Exercised	(1,400,000)	0.15
Balance, March 31, 2018	23,675,000	\$ 0.13
Exercisable, March 31, 2018	19,343,750	\$ 0.11

As at March 31, 2019, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
February 24, 2020	525,000	\$ 0.20
May 7, 2020	1,000,000	\$ 0.20
January 29, 2021	500,000	\$ 0.15
April 18, 2022	10,000,000	\$ 0.08
August 28, 2022	4,050,000	\$ 0.09
February 21, 2023	1,700,000	\$ 0.16
September 17, 2023	4,700,000	\$ 0.20
September 24, 2023	400,000	\$ 0.22
July 20, 2019	800,000	\$ 0.20
	23,675,000	

During the period ended March 31, 2018, the Company granted 1,700,000 (2017 – 14,050,000) stock options with an initial fair market value of \$194,601 (2017 - \$924,684) or \$0.155 (2017 - \$0.07) per option. The Company expensed \$174,267 (2017 - \$2,890) to operations for the options vesting during the period ended March 31, 2018. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2019</u>	<u>2018</u>
Risk-free interest rate	1.95%	2.14%
Expected life of option	0.5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	100.80%	103.81%

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14. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Capital management

The Company manages its capital to safeguard the Company'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 the capital structure and makes adjustments to it in the light of 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 March 31, 2018, the Company is not subject to externally imposed capital requirements.

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended March 31, 2019.

b) 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 March 31, 2018, the Company had \$1,646,038 (December 31, 2018 - \$140,722) in cash and cash equivalents and \$9,153,490 (December 31, 2018 - \$12,594,368) in current liabilities. The Company is exposed to liquidity risk.

The following are the expected maturities of its financial liabilities as at March 31, 2019:

		<1 Year		1-2 Years		>2 Years
Accounts payable and accrued liabilities	\$	9,153,490	\$	-	\$	-
Convertible notes		-		1,676,944		-
Revolving notes		-		-		16,945,288

c) 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.

d) 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

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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 \$2.29 million increase or decrease to the Company's net loss before tax (2018 – 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.

e) 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 \$31,600 in Q1 2019 (Q1 2018 – NIL) assuming all other variables remain constant.

f) 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.

g) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of cash, marketable securities, and investments are measured based on level 1 inputs of the fair value hierarchy.

The fair value of convertible notes and revolving notes are measured based on level 2 inputs of the fair value hierarchy.

Financial instrument	Classification	Carrying Value \$	Fair Value \$
Cash and cash equivalents	Amortized cost	\$ 1,646,038	\$ 1,646,038
Amounts receivable	Amortized cost	2,582,151	2,582,151
Marketable securities	FVTPL	28,800	28,800
Accounts payable and accrued liabilities	Amortized cost	8,388,696	8,388,696
Promissory notes	Amortized cost	764,795	764,795
Convertible debentures	Amortized cost	1,676,944	1,676,944
Revolving notes	Amortized cost	16,945,288	16,945,288
Warrants derivative	FVTPL	2,238,452	2,238,452

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The estimated fair value of due from and to related parties, accounts payable, and promissory note is equal to their carrying values due to the short-term nature of these instruments.

15. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the acquisition, exploration and production of resource properties.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the period ended March 31, 2019 were as follows:

- a) Reallocated \$9,386,879 from exploration and evaluation assets to property, plant and equipment.

The Company's significant non-cash transactions during the period ended December 31, 2018 were as follows:

- a) Reallocated \$22,233,473 from exploration and evaluation assets to property, plant and equipment.
- b) Included in property, plant, and equipment and exploration and evaluation assets is \$9,486,300 which relates to accounts payable and accrued liabilities.
- c) Shares issued on the conversion of notes payable \$1,055,068.
- d) Asset retirement obligation included in property, plant and equipment of \$520,379.

17. CONTINGENCIES AND COMMITMENTS

The Company has entered into an executive employment agreement with two directors and officers for a total of \$450,000 per annum.

The Company has entered into a sublease agreement for office space over the next five years with minimum payments as follows:

2019	\$ 233,552
2020	\$ 226,975
2021	\$ 201,400
2022	\$ 201,400
2023	\$ 201,400

The Company is involved in various legal claims and actions arising from alleged financing services provided to the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows, or comprehensive loss. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the Company's profit or loss in the period in which the outcome is determined. As at March 31, 2019 the Company has not recognized an accrual for litigation or claims as Management believes the claims are without merit.