Condensed Interim Financial Statements

SATURN OIL & GAS INC.

For the three months ended March 31, 2021 and 2020

Unaudited – prepared by management

(in Canadian Dollars)

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION (unaudited)

ASSETS		March 31, 2021	December 31, 2020
Current			
Cash and cash equivalents		**$ 263,744**	$ 569,111
Accounts receivable		**384,995**	739,154
Derivative instruments		**-**	47,000
Current portion of deposits and prepayments		**9,587**	40,716
Marketable securities		**3,200**	3,200
Total current		**661,526**	1,399,181
Non-current			
Deposits and prepayments		**434,235**	440,135
Property, plant and equipment	4	**36,201,773**	36,760,363
Exploration and evaluation assets	5	**4,484,993**	4,484,993
Total non-current		**41,121,001**	41,685,491
Total assets		**$ 41,782,527**	$ 43,084,672
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	6	**6,077,112**	$ 6,139,012
Promissory notes	7	**479,157**	479,157
Revolving notes - current	10	**25,157,580**	25,142,443
Lease liabilities	11	**175,000**	175,000
Total current		**31,888,849**	31,935,612
Non-current			
Promissory notes	7	**906,454**	853,087
Asset retirement obligation	8	**3,193,415**	3,184,792
Convertible notes	9	**2,075,816**	2,037,654
Lease liabilities	11	**402,830**	435,011
Warrant liability	12	**1,340,443**	1,032,238
Total non-current		**7,918,958**	7,542,782
Total liabilities		**39,807,806**	39,478,394
SHAREHOLDERS' EQUITY			
Share capital	14	**33,027,361**	33,027,361
Equity reserves	14	**8,501,139**	8,603,560
Contributed capital on convertible debt		**112,390**	112,390
Deficit		**(39,666,170)**	(38,137,033)
Total shareholders' equity		**1,974,720**	3,606,278
Total liabilities and shareholders' equity		**$ 41,782,527**	$ 43,084,672

Nature and Continuance of Operations (Note 1)

Subsequent Events (Note 20)

Approved by the Board of Directors on May 31, 2021

(signed) "Ivan Bergerman" — Director

(signed) "John Jeffery" — Director

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS) (Unaudited)

		For the three months ended	
REVENUE	**Note**	**March 31, 2021**	March 31, 2020
Oil revenue		$ 1,321,794	$ 3,165,453
Royalties		(57,961)	(119,819)
Oil revenue, net of royalties		1,263,833	3,045,634
Unrealized (loss) gain on derivative instruments	15	(47,000)	3,284,274
Realized gain on derivative instruments		-	288,015
		1,216,833	6,617,923
EXPENSES (RECOVERY)			
Operating		397,151	666,987
General and administrative	13	432,734	348,214
Amortization and depletion		578,756	1,743,468
Share based payments	13,14	(102,421)	172,104
Interest on long-term debt		1,116,408	1,044,056
		2,422,628	3,974,829
Income (loss) before other income (expenses)		(1,205,795)	2,643,094
Other (income) expenses			
Foreign exchange loss		15,137	2,378,413
Loan structuring costs		-	500,259
Unrealized gain on marketable securities		-	(1,120)
Unrealized loss (gain) on warrant liability	12	308,205	(892,309)
(Loss) income and comprehensive (loss) income for the year		$ (1,529,137)	$ 657,851
Basic and diluted net (loss) income per share	14	$ (0.01)	$ 0.00
Weighted average number of shares outstanding	14	234,573,715	234,573,715

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)

	Number of Shares		Share Capital	Equity reserves		Convertible Debt		Deficit		Total
Balance as at December 31, 2019	**234,573,715**	**$**	**33,027,361**	**$ 7,914,880**	**$**	**112,390**	**$**	**(30,378,864)**	**$**	**10,675,767**
Share-based payments	-		-	688,680		-		-		688,680
Loss for the period	-		-	-		-		(7,758,169)		(7,758,169)
Balance as at December 31, 2020	**234,573,715**	**$**	**33,027,361 $**	**8,603,560**	**$**	**112,390 $**		**(38,137,033)**	**$**	**3,606,278**
Share-based payments	**-**		**-**	**(102,421)**		**-**		**-**		**(102,421)**
Loss for the period	**-**		**-**	**-**		**-**		**(1,529,137)**		**(1,529,137)**
Balance as at March 31, 2021	**234,573,715**	**$**	**33,027,361**	**$ 8,501,139**		**$ 112,390**	**$**	**(39,666,170)**		**$1,974,720**

The accompanying notes are an integral part of these condensed interim financial statements.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	For the three months ended	
	March 31, 2021	March 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss (income) for the period	**$ (1,529,137)**	$ 657,851
Items not affecting cash:		
Unrealized loss (gain) on warrant liability	**308,205**	(892,309)
Amortization and depletion	**558,590**	1,743,468
Accretion on asset retirement obligation	**8,623**	8,626
Share-based payments	**(102,421)**	172,104
Unrealized loss (gain) on derivative instruments	**47,000**	(3,284,274)
Unrealized foreign exchange on notes payable	**15,137**	2,693,613
Unrealized loss on marketable securities	**-**	(1,120)
Loan structuring cost	**-**	500,259
Accretion on lease liabilities	**11,568**	14,858
Accretion on promissory notes and convertible debt	**139,460**	47,499
Changes in non-cash working capital items:		
Accounts receivable	**354,159**	797,218
Deposits and prepayments	**37,030**	(88,985)
Accounts payable and accrued liabilities	**(61,901)**	(2,376,054)
Net cash used by operating activities	**(213,687)**	(7,246)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of lease liabilities	**(43,749)**	(70,320)
Repayment of promissory note	**(47,931)**	-
Proceeds from revolving note	**-**	3,006,995
Repayment of revolving note	**-**	(2,017,237)
Revolving note closing costs	**-**	(3,336)
Net cash (used in) provided by financing activities	**(91,680)**	916,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	**-**	(208,979)
Change in exploration and evaluation assets	**-**	(333,286)
Net cash used in investing activities	**-**	(542.265)
Change in cash	**(305,367)**	366,591
Cash, beginning of period	**569,111**	1,110,303
Cash, end of period	**$ 263,744**	$ 1,476,894

Supplementary Information (Note 16)

The accompanying notes are an integral part of these condensed interim financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. ("Saturn" or the "Company") 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 and gas properties in west-central Saskatchewan.

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

Going concern of operations

These condensed interim financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at March 31, 2021, the Company had working capital deficiency of $31,227,323 and an accumulated deficit of $39,666,170 and had incurred a net loss of $1,529,137 for the three month period then ended.

Subsequent to March 31, 2021, the Company entered into an agreement to acquire approximately 6,300 BOE per day of production for $93 million (before adjustments). This acquisition will be funded through proceeds from a Senior Secured Term Loan, a private placement of Special Warrants and a from a brokered private placement of Subscription Receipts (note 20).

COVID-19

For the three months ended March 31, 2021, COVID-19 continues to impact the global economy, including the oil and gas industry. Business conditions in 2021 reflected the market uncertainty associated with COVID-19. The Company's ability to fund the current level of operating costs in the face of an extended disruption may be affected and the Company may be required to adjust operating levels or obtain additional financing, which may be restricted. The Company has taken into account the impacts of COVID-19 and the unique circumstances it has created in making estimates, assumptions and judgements in the preparation of the condensed interim financial statements and continues to monitor the developments in the business environment and commodity market. Actual results may differ from estimated amounts and those differences may be material.

2. BASIS OF PREPARATION AND MEASUREMENT

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. These condensed interim financial statements were approved by the Board of Directors on May 31, 2021.

Basis of presentation

The condensed interim financial statements have been prepared on a historical cost basis, except for derivative instruments and warrant liability that are measured at fair value. These financial statements have been prepared using the accrual basis of accounting.

Functional and presentation currency

The condensed interim financial statements are presented in Canadian dollars (CAD), which is also the Company's functional currency. All references to US$ or USD are to United States dollars.

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 condensed interim 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 accounts receivable which is included in the condensed interim 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 condensed interim 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 condensed interim 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) Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include the Black-Scholes option valuation model and forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, volatilities of commodity prices and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income.

h) Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

i) Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing properties requires the use of estimates and judgments and is by its nature subject to measurement uncertainty.

j) Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew by considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations is estimated using a discount rate similar to Saturn's company-specific incremental borrowing rate. This rate represents the rate that Saturn would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

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 classification, presentation and measurement 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies under IFRS are presented in Note 3 of the audited annual financial statements as at December 31, 2020. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2020. Certain information and disclosures normally required to be included in the notes to the annual financial statements prepared in accordance with IFRS have been condensed or omitted in the interim financial statements.

4. PROPERTY, PLANT AND EQUIPMENT

	Producing assets	Right-of-use assets	Other assets	Total
Cost:				
Balance, December 31, 2019	$ 49,122,172	$ 935,448	$ 255,845	$ 50,313,465
Additions	-	-	50,902	50,902
Transfer from E&E assets	207,786	-		207,786
Balance, December 31, 2020 and March 31, 2021	$ 49,329,958	$ 935,448	$ 306,747	$ 50,572,153

Accumulated amortization	Producing assets	Right-of-use assets	Other assets	Total
Balance, December 31, 2019	$ 8,955,960	$ 207,972	$ 125,040	$ 9,288,972
Depletion and Amortization expense	4,280,177	161,687	80,954	4,522,818
Balance, December 31, 2020	13,236,137	369,659	205,994	13,811,790
Depletion and Amortization expense	509,240	34,677	14,683	558,590
Balance, March 31, 2021	$ 13,745,377	$ 404,336	$ 220,677	$ 14,370,380
Net Book Value:				
Balance, December 31, 2020	$ 36,093,821	$ 565,789	$ 100,753	$ 36,760,363
Balance, March 31, 2021	$ 35,584,581	$ 531,122	$ 86,070	$ 36,201,773

As at March 31, 2021, an estimated $124,250,000 (December 31, 2020 - $124,250,000) in future development costs associated with proved and probable undeveloped reserves were included in the depletion calculation.

The Company's property, plant and equipment assets are grouped into one cash generating unit ("CGU") for impairment testing. As a result of the recent increase in oil commodity prices, the Company did not note any indicators of impairment as at March 31, 2021 related to the property, plant and equipment.

5. EXPLORATION AND EVALUATION ASSETS

Although the Company has taken steps to verify title to mineral exploration and evaluation ("E&E") 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.

	March 31, 2021	December 31, 2020
Beginning balance	**$ 4,484,993**	$ 4,115,466
Additions	**-**	1,077,313
Disposition on settlement of promissory note	**-**	(500,000)
Transfer to producing assets	**-**	(207,786)
	$ 4,484,993	$ 4,484,993

During the three months ended March 31, 2020, Saturn capitalized $nil (2020 – $90,479) of directly attributable general administrative expenses to E&E assets. During the year ended December 31, 2020, Saturn capitalized $308,562 of directly attributable general administrative expenses to E&E assets.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2021	December 31, 2020
Accounts payable	**$ 3,461,157**	$ 3,805,008
Accrued liabilities	**636,798**	718,340
Interest payable	**1,979,157**	1,615,664
	$ 6,077,112	$ 6,139,012

7. PROMISSORY NOTES

During the year ended December 31, 2012, the Company recognized a note payable to a third party in the amount of $966,856 as the result of a settlement agreement for financing fees relating to the Revolving Notes entered in September 2018. Assumptions used in determining the fair value of the note were a term ending in March 2022 and an interest rate of 8.2%. The note required monthly payments of $42,417 during 2021; however, by mutual agreement, payments were suspended during February and March 2021.

During the year ended December 31, 2018, the Company received proceeds from promissory notes in the amount of $750,000 from a shareholder. The promissory note bears an interest of 2% and is subordinated until September 2022. Assumptions used in determining the equity portion of the note were a term ending in September 2022 and an interest rate of 7.1% if there were no conversion rights. The term of the promissory note was modified as part of a subordination agreement to defer the payment to September 2022.

	March 31, 2021	December 31, 2020
Balance, beginning of period	**$ 1,332,244**	$ 2,122,050
Repayment	**(47,931)**	(381,919)
Settlement of promissory note	**-**	(500,000)
Interest and accretion	**139,460**	92,113
	1,423,773	1,332,244
Less: current portion	**(641,337)**	(479,157)
Balance, end of period	**$ 744,274**	$ 853,087

8. ASSET RETIREMENT OBLIGATION

	March 31, 2021	December 31, 2020
Balance, beginning of year	**$ 3,184,792**	$ 3,150,298
Accretion	**8,623**	34,494
Balance, end of year	**$ 3,193,415**	$ 3,184,792

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 $3.3 million (2020 - $3.3 million). These obligations have been discounted using a risk-free rate between 1.51% to 2.16% (2020 – 1.51% to 2.16%) and an inflation rate between 1.5% to 2.2% per year (2020 – 1.5% to 2.2%).

9. CONVERTIBLE NOTES

As at March 31, 2021, the Company has a $1,000,000 (December 31, 2020 - $1,000,000) and a $750,000 (December 31, 2020 - $750,000) convertible note payable due to a shareholder. Each note bears interest at 5% per annum with maturity in September 2022. The convertible note payable and unpaid interest is convertible into shares of the Company at the option of the holder at a conversion price of $0.10 per share for the $1,000,000 convertible note and at a conversion price of $0.15 per share for the $750,000 convertible note.

	March 31, 2021	December 31, 2020
Balance, beginning of period	**$ 2,037,654**	$ 1,889,276
Accretion and interest	**38,162**	148,378
Balance, end of period	**$ 2,075,816**	$ 2,037,654

10. REVOLVING NOTES

	March 31, 2021	December 31, 2020
Prudential Capital Energy Partners, L.P.	**$ 22,366,938**	$ 22,352,480
Prudential Capital Energy Partners Management Fund	**2,790,642**	2,788,963
Balance, end of period	**25,157,580**	25,142,443
Less: current	**25,157,580**	25,142,443
Non-current	**$ -**	$ -

On September 14, 2018, the Company entered into a US $20 million secured reserve-based revolving note facility ("Revolving Notes") from Prudential Capital Energy Partners, L.P. and Prudential Capital Energy Partners Management Fund. As at March 31, 2021, the Company has drawn US$19.7 million (CDN $25.1 million equivalent using the March 31, 2021 exchange rate) under the Revolving Notes. Commencing October 12, 2018, on or before the tenth business day of each calendar month, the Company's mandatory prepayment of the note shall be 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 notes are 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.

In 2018, the Company also issued 30,505,122 warrants related to the revolving notes. These were determined to be derivatives and have been recognized as a liability as the warrant holder has the option to exercise without providing cash and it receives the number of shares based on the Company share price at the exercise date. The warrants have been recognized as part of loan financing costs and corresponding amount has been included in warrant liability and was determined to have a fair value of $5,147,334 at inception using the Black Scholes model and the assumptions noted below. At March 31, 2021, the warrant liability was increased by $308,205 (2020 - $892,309 decrease) and a corresponding unrealized loss recognized in the profit or loss. The warrants were valued using a Black Scholes model based on the following assumptions at inception and year-end: exercise prices of $0.235, share price of $0.25 at inception and $0.135 at period-end (2020 – $0.19), terms of maturity date of September 15, 2022, volatility of 98% (2020 – 94%), dividend yield of nil and risk-free interest rates of 1.88% at inception and 2.23% at year-end.

Covenants

The note purchase agreement for the revolving notes 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 earnings before interest, taxes, depreciation, and extraordinary items (“EBITDAX”) for the four quarters most recently ended cannot exceed 3.5 to 1.0;

  For the calculation ,EBITDAX is defined as for any period with respect to the Company, without duplication, (a) Net Income for such period plus (b) to the extent deducted in determining 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 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 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.

  For the calculation, 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 covenants at March 31, 2021 and at December 31, 2020 and as a result, the balance of the revolving notes has been classified to current.

Subsequent to March 31, 2021, the revolving note facility is expected to be amended to be senior secured notes, extended to November 2024 and subordinated to a new Senior Secured Term Loan, with interest payable 7.5% cash and 7.5% payment in kind (note 20).

11. LEASE LIABILITIES

The following is a breakdown of the Company's lease liability:

Lease liability – office lease	
Balance, December 31, 2019	$ 757,701
Lease payments	(201,570)
Interest expense	53,880
Balance, December 31, 2020	610,011
Lease payments	(43,749)
Interest expense	11,568
Balance March 31, 2021	$ 577,830
Current	$ 175,000
Long-term	$ 402,830

As at March 31, 2021, the estimated undiscounted cash flows required to settle the Company's lease liability was $670,834 (December 31, 2020 - $714,583).

12. WARRANT LIABILITIES

	March 31, 2021	December 31, 2020
Beginning balance	**$ 1,032,238**	$ 1,965,285
Change in fair value (Note 10)	**308,205**	(933,047)
Warrant liabilities	**$ 1,340,443**	$ 1,032,238

13. RELATED PARTY TRANSACTIONS

The Company incurred the following transactions with directors, officers and other key management personnel:

	Three Months Ended March 31	
	2021	2020
Key management compensation	**$135,699**	$146,250
Legal fees	**$548**	$2,843
Rent expense recovery	**-**	$(17,819)
Share based payments	**$64,370**	$137,971

As at March 31, 2021, the Company owed $nil (2020 - $nil) to its directors, officers, other key management personnel of the Company, or companies controlled by officers of the Company.

14. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

The Company did not issue any common shares during the year ended December 31, 2020 or during the three months ended March 31, 2021.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, December 31, 2019	63,589,075	$ 0.21
Expired	(25,500,621)	0.18
Balance, December 31, 2020 and March 31, 2021	35,088,454	$0.243

As at March 31, 2021, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
September 14, 2022	30,505,122	$ 0.235
November 16, 2022	4,583,332	$ 0.30
	35,088,454	$ 0.243

Stock Options

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 32,275,000 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 stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest either as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date or to 10% on the date of grant and 7.5% at the end of every quarter after the grant date. Vesting conditions are 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, 2019	32,275,000	0.13
Granted	4,875,000	0.10
Expired	(1,525,000)	0.20
Forfeited	(8,100,000)	0.11
Balance, December 31, 2020	27,525,000	0.125
Expired	(500,000)	0.20
Forfeited	(2,250,000)	0.11
Balance, March 31, 2021	24,775,000	$ 0.125
Exercisable, March 31, 2021	20,243,750	$ 0.125

As at March 31, 2021, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
April 18, 2022	5,000,000	$ 0.08
August 28, 2022	3,850,000	$ 0.09
February 21, 2023	1,000,000	$ 0.16
September 17, 2023	3,600,000	$ 0.20
May 24, 2024	500,000	$ 0.14
August 19, 2024	2,000,000	$ 0.12
October 15, 2024	2,700,000	$ 0.15
October 30, 2024	2,250,000	$ 0.15
April 15, 2025	500,000	$0.10
June 6, 2025	2,875,000	$0.10
November 13, 2025	500,000	$0.10
	24,775,000	$0.125

During the quarter ended March 31, 2021, the Company expensed $105,990 (2020 - $172,104) related to stock-based compensation and recorded a reversal of stock-based compensation of $208,411 (2020 - $nil) related to options forfeit during the year.

Earnings (loss) Per Share

	Three Months Ended	
	March 31, 2021	March 31, 2020
Net (loss) income for the period	$ (1,529,136)	$ 657,851
Weighted average number of common shares basic and diluted	234,573,715	234,573,715
Basic and diluted net (loss) income per share	$ (0.01)	$ 0.00

In calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2021, all equity- settleable share-based instruments are excluded from the diluted weighted average shares calculation (March 31, 2020 – nil).

15. 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, 2021, the Company is subject to certain externally imposed capital requirements under covenants in certain debt agreements.

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 quarter ended March 31, 2021.

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, 2021, the Company had $263,744 (December 31, 2020 - $569,111) in cash and cash equivalents and $31,888,849 (December 31, 2020 - $31,935,612) in current liabilities. The Company is exposed to liquidity risk.

The Company manages 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 March 31, 2021:

	<1 Year	1-2 Years	>2 Years
Accounts payable and accrued liabilities	$ 6,077,112	$ -	$ -
Promissory notes	479,157	906,454	-
Convertible notes	-	2,075,816	-
Revolving notes	25,157,580	-	-
Lease liabilities	175,000	402,830	-

At March 31, 2021, a total of $2.8 million of the accounts payable and accrued liability balance was over 365 days.

c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and natural gas marketers and a concentration in the oil and gas industry. All of the Company's revenue is marketed with a single company. The related receivable from the marketing company as at March 31, 2021 was collected subsequent to March 31, 2021. The risk is mitigated by only dealing with credit worthy companies.

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 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 $2.5 million increase or decrease to the Company's net loss before tax for the three months ended March 31, 2021 (2020 – $2.81 million). 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 Notes 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 Notes. A change in prime interest rates by 1% would have changed net loss by approximately $73,500 during the three months ended March 31, 2021 (2020 – $76,400) 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. Prices for oil are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

At March 31, 2021, no derivative instruments were outstanding.

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 derivative instruments and warranty liabilities are measured based on level 2 inputs of the fair value hierarchy.

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.

Financial Instruments	**Classification**	**Carrying Value ($)**	**Fair Value ($)**
Cash and cash equivalents	Amortized cost	$ 263,744	$ 263,744
Accounts receivable	Amortized cost	384,995	384,995
Accounts payable and accrued liabilities	Amortized cost	6,077,112	6,077,111
Promissory notes	Amortized cost	1,385,611	1,385,611
Convertible debentures	Amortized cost	2,075,816	2,075,816
Revolving notes	Amortized cost	25,157,580	25,157,580
Lease liabilities	Amortized cost	577,830	577,830
Warrant liability	FVTPL	1,340,443	1,340,443

The estimated fair value of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities is equal to their carrying values due to the short-term nature of these instruments. The convertible debentures and revolving notes have fair values equal to their carrying values as the risk profile associated with these financial instruments has remained unchanged since their inception. The Company estimates the fair value of promissory notes at March 31, 2021 by discounting future cash flows using level 2 inputs. The fair value was not materially different from the carrying value.

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company paid no income tax for the years presented. During the three months ended March 31, 2021, the Company paid $563,367 of interest expense.

17. CONTINGENCIES AND COMMITMENTS

The Company has entered into an executive employment agreement with one director and officer of the Company at a cost of $250,000 per annum. The Company is defendant in certain legal actions arising primarily due to unpaid accounts payable. The Company is evaluating the impact such legal matters would have on its financial position.

18. 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.

19. GOVERNMENT GRANTS

The Government of Canada passed the Canada Emergency Wage Subsidy (“CEWS”) and the Canada Emergency Rent Subsidy (“CERS”) as part of its COVID19 Economic Response Plan. CEWS allows eligible companies to receive a subsidy of up to 75 percent of employee wages, subject to a maximum. CERS provides for eligible companies to receive a rent subsidy of up to 65% of eligible expenses. For the three months ended March 31, 2021, the Company had reductions to general and administrative expenses of $32,761 related to CEWS and CERS.

20. SUBSEQUENT EVENTS

In May 2021, the Company entered into an agreement to acquire approximately 6,300 BOE per day of production for $93 million (before adjustments). This acquisition will be funded through proceeds from a $82.0 million Senior Secured Term Loan, a private placement of Special Warrants at $0.12 per Special Warrant for aggregate gross proceeds of $18.4 million and a from a brokered private placement of Subscription Receipts at $0.12 per Subscription Receipt for aggregate gross proceeds of $13.8 million. The Company's existing reserve-based revolving note facility will be amended to be senior secured notes, extended to November 2024 and subordinated to the Senior Secured Term Loan, with interest payable 7.5% cash and 7.5% payment in kind.