



**SATURN OIL & GAS INC.**

CONDENSED INTERIM FINANCIAL STATEMENTS  
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017  
(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.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**AS AT**

	Note	September 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 2,194,953	\$ 747,241
Amounts receivable	4	660,617	403,696
Current deposits		50,000	-
Marketable securities	5	9,600	22,400
Current portion of loan financing costs	6	219,970	-
Total current		3,135,140	1,173,337
<b>Non-current</b>			
Deposit		306,300	41,786
Environmental deposit	8, 9	-	285,149
Property, plant and equipment	8	9,580,463	2,267,014
Exploration and evaluation assets	9,13	6,668,785	1,510,814
Total non-current		16,555,548	4,104,763
Total assets		\$ 19,690,688	\$ 5,278,100
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	10	\$ 5,420,830	\$ 2,194,623
Promissory note	11	805,439	45,161
Convertible note	12	-	1,972,603
Due to related parties	13	-	299,729
Total current		6,226,270	4,512,116
<b>Non-current</b>			
Asset retirement obligation	14	556,267	268,873
Convertible notes	12	3,311,883	1,253,746
Revolving facility	6	5,262,105	-
Total non-current		9,130,255	1,522,619
Total liabilities		15,356,525	6,034,735
<b>Shareholders' Deficiency</b>			
Share capital	13,15	27,116,499	22,557,231
Equity reserves	15	6,688,636	6,049,425
Contributed capital on convertible debt		314,692	314,692
Deficit		(29,785,663)	(29,677,983)
Total shareholders' equity (deficiency)		4,334,164	(756,635)
Total liabilities and shareholders' equity (deficiency)		\$ 19,690,688	\$ 5,278,100

**Nature and Continuance of Operations** (Note 1)

**Contingencies and Commitments** (Note 19)

**Subsequent Events** (Note 20)

**Approved by the Board of Directors on November 22, 2018**

*"John Jeffrey"*

Director

*"Scott Newman"*

Director

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

**SATURN OIL & GAS INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Note	Three months ended September 30,		Nine months ended September 30,	
		2018	2017	2018	2017
<b>OIL REVENUE</b>		\$ 908,561	\$ -	\$ 3,058,970	\$ -
<b>ROYALTIES</b>		(128,704)	-	(406,014)	-
<b>NET REVENUE</b>		779,857	-	2,652,956	-
<b>COST OF SALES</b>		162,774	-	555,139	-
<b>DEPLETION</b>		32,280	-	297,488	-
<b>GROSS PROFIT</b>		584,803	-	1,800,330	-
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>					
Accounting and auditing	13	\$ 64,772	\$ 12,523	\$ 74,170	\$ 28,960
Administration, office and rent		48,550	59,176	148,769	59,228
Advertising, promotion and public relations		36,624	20,644	195,112	40,911
Amortization		3,168	121	7,275	4,437
Consulting	13	16,259	48,935	80,353	59,112
Filing fees		13,511	16,613	50,267	53,886
Field expense		-	2,962	-	2,962
Insurance		18,647	6,669	34,949	18,340
Legal fees	13	7,608	18,421	33,700	20,126
Management salaries and fees	13	123,875	223,683	307,208	645,257
Travel and accommodation		24,207	14,712	52,002	19,922
Total expenses		357,221	442,982	983,806	953,141
<b>Income (loss) from operations</b>		227,582	(442,982)	816,523	(953,141)
Foreign exchange gain (loss)		36,645	-	36,645	-
Gain (loss) on investments		-	70,836	-	70,836
Gain on settlement of accounts payable	10	186,732	586,577	467,850	972,840
Interest on long-term debt		(189,611)	(18,523)	(348,578)	(23,674)
Loan financing costs	6	(333,477)	-	(428,110)	-
Other income		-	2,558	-	2,558
Share-based payments	13,16	(364,103)	(238,935)	(639,210)	(547,833)
Unrealized gain (loss) on marketable securities	5	(6,400)	(4,800)	(12,800)	(19,800)
Write-off of exploration and evaluation assets	9	-	(57,405)	-	(67,404)
<b>Loss for the period</b>		(442,632)	(84,151)	(107,680)	(565,618)
<b>Loss and comprehensive loss for the period</b>		\$ (442,632)	\$ (84,151)	\$ (107,680)	\$ (565,618)
<b>Basic and diluted loss per share</b>		\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<b>Weighted average number of shares outstanding</b>		188,978,862	156,754,343	170,843,400	149,114,849

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

**SATURN OIL & GAS INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) for the period	\$ (107,680)	\$ (565,618)
Items not affecting cash:		
Amortization	7,275	4,437
Accretion on asset retirement obligation	5,772	-
Depletion	297,488	-
Share-based payments	639,210	547,832
Write-off of exploration and evaluation assets	-	67,404
Gain on settlement of accounts payable	(467,850)	(972,840)
Unrealized loss on investments	-	72,778
Unrealized loss (gain) on marketable securities	12,800	36,000
Accretion on convertible debt	85,534	-
Accrued interest on promissory note	10,278	-
Changes in non-cash working capital items:		
Accounts receivable	(256,921)	(66,667)
Loan structuring cost	(209,269)	-
Due to/from related parties	(299,729)	221,291
Prepaid expenses	-	3,826
Environmental deposit	-	(285,149)
Accounts payable and accrued liabilities	3,694,056	(53,592)
<b>Net cash provided (used) in operating activities</b>	<b>3,410,964</b>	<b>(990,298)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share issuance costs	(481,025)	(69,241)
Private placement	4,036,713	-
Shares subscribed	-	711,120
Proceeds from warrants exercised	996,080	200,000
Proceeds from stock options exercised	7,500	-
Repayment of promissory note	(2,750,000)	(255,890)
Proceeds from promissory note	3,500,000	-
Proceeds from revolving note	5,912,840	-
Revolving note closing costs	(661,435)	-
Proceeds from convertible note	-	2,000,000
<b>Net cash provided by financing activities</b>	<b>10,560,673</b>	<b>2,585,989</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposit	(314,514)	(37,788)
Environmental deposit	285,149	-
Additions to property, plant and equipment	(7,336,590)	(28,999)
Additions to exploration and evaluation assets	(5,157,971)	(824,707)
<b>Net cash used in investing activities</b>	<b>(12,523,926)</b>	<b>(891,494)</b>
<b>Change in cash</b>	<b>1,447,712</b>	<b>704,197</b>
<b>Cash, beginning of period</b>	<b>747,241</b>	<b>190,719</b>
<b>Cash, end of period</b>	<b>\$ 2,194,953</b>	<b>\$ 894,916</b>

**Supplemental disclosure with respect to cash flows (Note 18)**

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

**SATURN OIL & GAS INC.**

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Share Capital	Equity Reserves	Convertible Debt	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance as at December 31, 2016</b>	<b>145,210,219</b>	<b>\$ 21,078,517</b>	<b>\$ 5,339,175</b>	<b>\$ -</b>	<b>\$ 325,035</b>	<b>\$ 20,566</b>	<b>\$ (27,279,015)</b>	<b>\$ (515,722)</b>
Shares subscribed	12,951,944	1,036,155	-	-	(325,035)	-	-	711,120
Share issuance costs	-	(69,241)	-	-	-	-	-	(69,241)
Share-based payments	-	-	547,833	-	-	-	-	547,833
Unrealized gain on available-for-sale investments	-	-	-	-	-	50,302	-	50,302
Realized gain on available-for-sale investments	-	-	-	-	-	(70,868)	-	(70,868)
Loss for the period	-	-	-	-	-	-	(565,618)	(565,618)
<b>Balance as at September 30, 2017</b>	<b>158,162,163</b>	<b>\$ 22,045,218</b>	<b>\$ 5,887,007</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 70,868</b>	<b>\$ (27,844,633)</b>	<b>\$ 87,805</b>
<b>Balance as at December 31, 2017</b>	<b>161,574,163</b>	<b>\$ 22,557,231</b>	<b>\$ 6,049,425</b>	<b>\$ 314,692</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (29,677,983)</b>	<b>\$ (756,635)</b>
Shares subscribed	33,639,500	4,036,713	-	-	-	-	-	4,036,713
Share issuance costs	-	(481,024)	-	-	-	-	-	(481,025)
Stock Options Exercised	50,000	7,500	-	-	-	-	-	7,500
Warrants exercised	6,321,869	996,080	-	-	-	-	-	996,080
Share-based payments	-	-	639,211	-	-	-	-	646,711
Income (loss) for the period	-	-	-	-	-	-	(107,680)	(107,680)
<b>Balance as at September 30, 2018</b>	<b>201,585,532</b>	<b>\$ 27,116,499</b>	<b>\$ 6,688,636</b>	<b>\$ 314,692</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (29,785,663)</b>	<b>\$ 4,334,164</b>

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

**SATURN OIL & GAS INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED SEPTEMBER 30, 2018**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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**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 & gas properties in west-central Saskatchewan.

The Company’s corporate headquarters are at 101-3239 Faithful Ave, Saskatoon, Saskatchewan, S7K 8H4. 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 September 30, 2018.

**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.

**SATURN OIL & GAS INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
SIX MONTHS ENDED SEPTEMBER 30, 2018  
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**2. BASIS OF PREPARATION (cont'd)**

**Use of estimates (cont'd)**

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) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values;
- 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 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.
- e) 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.

**SATURN OIL & GAS INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
SIX MONTHS ENDED SEPTEMBER 30, 2018  
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**2. BASIS OF PREPARATION (cont'd)**

*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.

**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, 2017. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2017.

**New accounting standards and interpretation**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

Effective (proposed) for annual periods beginning on or after January 1, 2019:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The Company expects the above standards to have little effect on its financial statements other than increased disclosure.

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 Company is currently evaluating the impact of this standard.

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**SIX MONTHS ENDED SEPTEMBER 30, 2018**  
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**4. AMOUNTS RECEIVABLE**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Accounts receivable	\$ 371,659	\$ 271,429
GST receivable	288,958	132,267
	<b>\$ 660,617</b>	<b>\$ 403,696</b>

**5. MARKETABLE SECURITIES**

	Shares
Balance, December 31, 2016	\$ 60,000
Reduction on disposition of shares	(16,200)
Change in fair value	(21,400)
Balance, December 31, 2017	22,400
Change in fair value	(12,800)
Balance, September 30, 2018	<b>\$ 9,600</b>

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. REVOLVING FACILITY**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Prudential Capital Energy Partners, L.P.	\$ 5,256,950	\$ -
Prudential Capital Energy Partners Management Fund	655,890	-
Loan financing costs	(870,705)	-
	5,042,135	-
Add: current portion of loan financing costs	219,970	-
	<b>\$ 5,262,105</b>	<b>\$ -</b>

On September 14, 2018, the Company entered into a US \$20 million secured reserved based revolving note facility (“Revolving Facility”). As at September 30, 2018, the Company has drawn US\$4.6 million (CDN\$5.9 million equivalent using the September 30, 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, with the next redetermination scheduled for October 2018.

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**SIX MONTHS ENDED SEPTEMBER 30, 2018**  
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**6. REVOLVING FACILITY (cont'd)**

As at September 30, 2018, \$870,705 of deferred loan financing costs related to the revolving facility were netted against its carrying value.

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.

**7. INVESTMENTS**

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Global Resources Investment Trust – cost	\$ -	\$ 1,300,000
Fair value adjustment	-	(1,196,194)
Cumulative foreign exchange gain (loss) associated with fair value adjustment	-	(10,362)
Reduction on disposition of shares	-	(93,444)
	<u>\$ -</u>	<u>\$ -</u>

During the year ended December 31, 2014, the Company acquired 704,301 shares of Global Resources Investment Trust (“GRIT”) valued at £1.00 each, in consideration for 10,000,000 units of the Company valued at \$0.13 each. The GRIT shares trade through the facilities of the London Stock Exchange. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.17 per share for two years.

On acquisition, the GRIT shares were valued at \$1,300,000. The GRIT shares have been designated as available-for-sale and are recorded at fair value. Fair value is determined by reference to the last bid price at the date of the statement of financial position. At December 31, 2015, the Company impaired the GRIT shares as a result of the significant and prolonged decline in fair value and \$1,216,860 was transferred from OCI to profit or loss. During the year ended December 31, 2017, the shares were sold for proceeds of \$140,747, reducing OCI by \$20,556 to \$NIL with a gain of \$66,135 recognized in profit or loss.

**SATURN OIL & GAS INC.****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

SIX MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

**8. PROPERTY, PLANT AND EQUIPMENT**

	<b>Producing assets</b>	<b>Other assets</b>	<b>Total</b>
<b>Cost:</b>			
Balance, December 31, 2017	\$ 2,356,473	\$ 28,999	\$ 2,385,472
Additions	-	24,824	24,824
Asset retirement obligation	281,622		281,622
Transfer from E&E (note 8)	7,311,766	-	7,311,766
Balance, September 30, 2018	\$ 9,949,861	\$ 53,823	\$ 10,003,684
<b>Accumulated amortization:</b>			
Balance, December 31, 2017	\$ 114,021	\$ 4,437	\$ 118,458
Depletion	297,488	-	297,488
Amortization expense	-	7,275	7,275
Balance, September 30, 2018	\$ 411,509	\$ 11,712	\$ 423,221
<b>Balance, December 31, 2017</b>	<b>\$ 2,242,452</b>	<b>\$ 24,562</b>	<b>\$ 2,267,014</b>
<b>Balance, September 30, 2018</b>	<b>\$ 9,538,352</b>	<b>\$ 42,111</b>	<b>\$ 9,580,463</b>

During the period ended September 30, 2018, the Company transferred \$7,311,766 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 September 30, 2018. The Company determined that there was no impairment.

During the quarter ended September 30, 2018, the Company participated in the Public Offering 381 land sale that took place on April 10, 2018 where the Company purchased 1 section of land.

During the period ended September 30, 2018, the Company participated in the Public Offering 382 land sale that took place on June 5, 2018 where the Company purchased 6-3/4 sections of land.

During the period ended September 30, 2018, the Company participated in the Public Offering 383 land sale that took place on August 14, 2018 where the Company purchased 8-5/16 sections of land.

**9. 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.

- During the quarter ended September 30, 2018, the Company drilled eight 100% working interest horizontal wells and participated in one 50% working interest well.
- During the period ended September 30, 2018, the Company recompleted one well.
- During the period ended September 30, 2018, the Company drilled, completed and brought on line three 100% working interest horizontal wells.

**SATURN OIL & GAS INC.****NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

SIX MONTHS ENDED SEPTEMBER 30, 2018

(UNAUDITED – PREPARED BY MANAGEMENT)

(EXPRESSED IN CANADIAN DOLLARS)

**9. EXPLORATION AND EVALUATION ASSETS (cont'd)****Saskatchewan Oil and Gas**

	Period ended September 30, 2018	Year ended December 31, 2017
Beginning balance	\$ 1,510,814	\$ 631,754
Additions	12,469,737	3,646,443
	13,980,551	4,278,197
Transfer to producing assets	(7,311,766)	(2,092,636)
Write-off of exploration and evaluation assets	-	(674,747)
Ending balance	\$ 6,668,785	\$ 1,510,814

**10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2018	December 31, 2017
Accounts payable	\$ 5,237,164	\$ 2,063,310
Accrued liabilities	3,118	81,656
Interest payable	180,548	49,657
	\$ 5,420,830	\$ 2,194,623

During the period ended September 30, 2018, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of \$467,850 (December 31, 2017 - \$343,666).

**11. 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.

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**11. PROMISSORY NOTE (cont'd)**

During the period ended September 30, 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 period ended September 30, 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 note was repaid in the period.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Balance, beginning of year	\$ 45,161	\$ 100,000
Proceeds	3,500,000	200,000
Repayment	(2,750,000)	(265,616)
Interest	10,278	10,777
Balance, end of period	<u>\$ 805,439</u>	<u>\$ 45,161</u>

**12. 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 and due May 15, 2018.

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.

- b) 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 at 5% per annum and due on demand.

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.

- c) 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 and due November 30, 2020.

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.

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Balance, beginning of year	\$ 3,226,349	\$ -
Proceeds	-	3,500,000
Value of convertible feature	-	(314,692)
Accretion	85,534	41,041
Balance, end of year	<u>\$ 3,311,883</u>	<u>3,226,349</u>
Less: current portion	-	1,972,603
Balance, end of period	<u>\$ 3,311,883</u>	<u>1,253,746</u>

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**13. RELATED PARTY TRANSACTIONS**

During the period ended September 30, 2018, the Company incurred the following transactions with directors, officers and other key management personnel:

	<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
Accounting	\$ -	\$ 16,438
Consulting and geological in exploration and evaluation assets	171,221	4,000
Consulting expense	18,675	45,935
Gain (loss) on settlement of accounts payable	-	(128,807)
Key management compensation	370,833	600,883
Legal fees	26,092	5,925
Loan structuring costs	5,733	-
Share based payments	507,505	430,301
Share issuance costs	59,339	-
<b>Total</b>	<b>\$ 1,159,398</b>	<b>\$ 974,675</b>

As at September 30, 2018, the Company owed \$NIL (December 31, 2017 - \$299,729) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company.

**14. ASSET RETIREMENT OBLIGATION**

	<b>September 30,</b>	<b>December 31,</b>
	<b>2018</b>	<b>2017</b>
Balance, beginning of year	\$ 268,873	\$ -
Asset retirement obligation	281,622	263,837
Accretion	5,772	5,036
<b>Balance, end of year</b>	<b>\$ 556,267</b>	<b>\$ 268,873</b>

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 \$532,710. These obligations have been discounted using a risk free rate of 2.18% and an inflation rate of 1.9% per year.

**15. SHARE CAPITAL AND EQUITY RESERVES**

Authorized

Unlimited common shares without par value.

During the period ended September 30, 2018, the Company

- a) Announced 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 up to 12,500,000 flow-through common shares (the "Flow-Through Shares") at a price of \$0.12 per Flow-Through Share and 29,166,667 common share units (the "Units") at a price of \$0.12 per Unit, for a minimum gross proceeds of approximately \$3,500,000 and up to a maximum gross proceeds of approximately \$5,000,000 (the "Offering"). The securities issued in connection with the Offering will be subject to a four-month hold period under applicable securities laws.

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**15. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

Authorized (cont'd)

- b) 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.

During the year ended December 31, 2017, the Company:

- a) Closed a private placement for 3,412,000 units at a price of \$0.15 per unit for a gross value of \$512,498 of which \$325,035 was received in fiscal 2016. Each whole unit consists of one common share and one half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.20 per share for a period of 18 months from the date of issue of the whole warrant.
- b) Closed private placement for 12,951,944 units at a price of \$0.08 per unit for a gross value of \$1,036,156 of which \$890,540 was received in cash and \$145,616 in exchange for debt. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the warrant. The warrants are subject to an accelerated expiry clause. The Company paid \$69,242 of cash share issuance costs in relation to the private placement.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	<b>Outstanding Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2016	6,584,800	\$ 0.20
Granted	8,181,972	0.16
Expired	(4,585,000)	0.22
Balance, December 31, 2017	10,181,772	0.16
Granted	58,845,244	0.21
Exercised	(6,321,869)	0.15
Expired	(1,999,800)	0.15
Balance, September 30, 2018	60,705,347	\$ 0.19

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As at September 30, 2018, the following share purchase warrants were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Warrants</b>	<b>Exercise Price</b>
October 10, 2019	1,110,103	\$ 0.15
October 10, 2019	750,000	\$ 0.20
May 11, 2019	859,375	\$ 0.15
June 7, 2020	11,198,500	\$ 0.18
July 3, 2020	2,091,666	\$ 0.18
July 18, 2020	14,190,581	\$ 0.12
September 14, 2022	30,505,122	\$ 0.24
	<b>60,705,347</b>	

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 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:

	<b>Outstanding Options</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2016	12,174,000	\$ 0.18
Granted	14,050,000	0.08
Forfeited/expired	(4,764,000)	0.18
Balance, December 31, 2017	21,460,000	0.12
Granted	6,800,000	0.19
Exercised	(50,000)	0.15
Forfeited/expired	(3,685,000)	0.18
Balance, September 30, 2018	24,525,000	\$ 0.13
Exercisable, September 30, 2018	17,587,000	\$ 0.11

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As at September 30, 2018, the following options were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Options</b>	<b>Exercise Price</b>
January 22, 2019	1,400,000	\$ 0.15
February 24, 2020	775,000	\$ 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
	<b>24,525,000</b>	

During the period ended September 30, 2018, the Company granted 6,800,000 (2017 – 14,050,000) stock options with an initial fair market value of \$1,198,680 (2017 - \$924,684) or \$0.19 (2017 - \$0.07) per option. The Company expensed \$647,221 (2017 - \$308,898) to operations for the options vesting during the period ended September 30. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	2.23%	1.19%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	101.76%	104.22%

**16. 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 September 30, 2018, the Company is not subject to externally imposed capital requirements.

## **SATURN OIL & GAS INC.**

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#### **16. FINANCIAL INSTRUMENTS (cont'd)**

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 September 30, 2018, the Company had \$2,194,953 (December 31, 2017 - \$747,241) in cash and cash equivalents and \$6226,270 (December 31, 2017 - \$4,512,116) in current liabilities. The Company is exposed to liquidity risk.

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

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars.

e) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and permit deposits. There is a minimal risk that the Company would recognize any loss as a result of change in market interest rates.

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.

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**16. FINANCIAL INSTRUMENTS (cont'd)**

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 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.

**17. 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.

**18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

The Company's significant non-cash transactions during the period ended September 30, 2018 were as follows:

- a) Reallocated \$7,311,766 from exploration and evaluation assets to property, plant and equipment.

**19. CONTINGENCIES AND COMMITMENTS**

The Company has entered into an executive employment agreement with two directors and officers of the company at a cost of \$200,000 per annum per director and officer for a total of \$400,000 per annum.

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

2018	\$ 102,302
2019	\$ 102,302
2020	\$ 25,575

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**20. SUBSEQUENT EVENT**

Subsequent to the period ended September 30, 2018, the Company:

- a) Issued 1,560,695 shares on exercised warrants at a weighted average of \$0.16 per warrant.
- b) Cancelled 450,000 warrants with an exercise price of \$0.20 as they were not exercised within the forced conversion time period.
- c) 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.