



Condensed Interim Financial Statements

SATURN OIL & GAS INC.

Nine Months Ended September 30, 2020 and 2019

(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.

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)**

	Note	September 30, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		\$ 342,522	\$ 1,110,303
Accounts receivable		870,396	1,628,189
Derivative instruments - current	16	380,502	-
Current portion of deposits and prepayments		382,575	153,037
Marketable securities	4	3,200	3,680
Total current		1,979,195	2,895,209
Non-current			
Deposits and prepayments		226,954	213,889
Property, plant and equipment	5	37,904,856	41,024,493
Exploration and evaluation assets	6	4,248,646	4,115,466
Total non-current		42,380,456	45,353,847
Total assets		\$ 44,359,651	\$ 48,249,056
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	7	\$ 5,605,885	\$ 8,509,873
Derivative instruments - current	16	-	195,519
Promissory notes	8	429,383	333,930
Revolving notes - current	11	-	7,500,000
Lease liabilities	12	220,747	146,161
Total current		6,256,015	16,685,483
Non-current			
Promissory notes	8	1,008,569	1,788,120
Asset retirement obligation	9	3,176,168	3,150,298
Convertible notes	10	1,999,052	1,889,276
Revolving notes	11	22,148,345	11,483,287
Lease liabilities	12	511,939	611,540
Warrant liability	13	1,259,966	1,965,285
Total non-current		30,104,039	20,887,806
Total liabilities		36,360,054	37,573,289
SHAREHOLDERS' EQUITY			
Share capital	15	33,027,361	33,027,361
Equity reserves	15	8,399,220	7,914,880
Contributed capital on convertible debt		112,390	112,390
Deficit		(33,539,374)	(30,378,864)
Total shareholders' equity		7,999,597	10,675,767
Total liabilities and shareholders' equity		\$ 44,359,651	\$ 48,249,056

Nature and Continuance of Operations (Notes 1 and 2)

Approved by the Board of Directors
on November 30, 2020

"John Jeffrey"

Director

"Ivan Bergerman"

Director

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

**CONDENSED INTERIM STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)
(UNAUDITED)**

	Notes	Three Months Ended September 30,		Nine Months Ended September 30,	
		2020	2019	2020	2019
REVENUE					
Oil revenue		\$ 2,127,294	\$ 3,798,438	\$ 5,718,371	\$ 13,840,095
Royalties		(42,221)	(172,151)	(168,659)	(639,866)
Oil revenue, net of royalties		2,085,073	3,626,286	5,549,712	13,200,228
Unrealized gain (loss) on derivative instruments		(456,419)	-	576,021	-
Realized gain (loss) on derivative instruments		399,980	(471)	1,669,846	(231,580)
		2,028,634	3,625,815	7,795,579	12,968,648
EXPENSES					
Operating		515,251	599,375	1,390,098	2,273,502
General and administrative	14	236,042	414,352	795,571	1,264,379
Share based payments	15	174,404	111,440	484,340	450,674
Interest on long-term debt		1,059,088	1,006,326	3,193,240	2,700,028
Amortization, depletion and accretion	5,9,10,11	1,341,695	1,167,505	3,607,998	4,753,609
		3,326,480	3,298,998	9,471,247	11,442,192
Income (loss) before other income		(1,297,846)	326,817	(1,675,668)	1,526,456
Other expense (income)					
Foreign exchange (gain) loss		84,222	336,137	361,762	(106,059)
Unrealized foreign exchange (gain) loss		(806,895)	-	336,717	-
Gain on settlement of accounts payable		-	-	(138,245)	4,968
Loan structuring costs		612,039	93,970	1,629,447	226,877
Loss on abandonment liability		-	-	-	63,365
Unrealized (gain) loss on marketable securities		2,720	6,400	480	9,600
Unrealized (gain) loss on warrant liability	13	(394,397)	443,200	(705,319)	(935,206)
Income (loss) and comprehensive income (loss) for the period		\$ (795,535)	\$ (552,890)	\$ (3,160,510)	\$ 2,272,847
Basic and diluted income per share		\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.01
Weighted average number of shares outstanding		233,245,789	234,489,852	233,245,789	231,895,854

The accompanying notes are an integral part of these 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, 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	210,700	31,209	-	-	-	31,209
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	-	-	450,674	-	-	450,675
Income for the period	-	-	-	-	2,272,847	2,272,847
Balance as at September 30, 2019	234,573,715	\$ 32,781,262	\$ 7,741,089	\$ 134,712	\$ (28,928,259)	\$ 11,728,804
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	-	-	517,504	-	-	517,504
Reversal of share-based payments on forfeiture	-	-	(33,164)	-	-	(33,164)
Loss for the period	-	-	-	-	(3,160,510)	(3,160,510)
Balance as at September 30, 2020	234,573,715	\$ 33,027,361	\$ 8,399,220	\$ 112,390	\$ (33,539,374)	\$ 7,999,597

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

CONDENSED INTERIM STATEMENTS OF CASHFLOWS (UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) for the period	\$ (795,535)	\$ (552,892)	\$ (3,160,510)	\$ 2,272,847
Items not affecting cash:				
Unrealized loss on warrant liability	(394,397)	443,200	(705,319)	(935,206)
Amortization and depletion	1,274,395	1,167,505	3,540,698	4,753,609
Accretion on asset retirement obligation	8,623	5,774	25,870	(130,540)
Share-based payments	174,404	111,400	484,340	450,674
Unrealized loss (gain) on derivative instruments	456,419	-	(576,021)	-
Unrealized foreign exchange on revolving notes	(573,539)	-	668,618	-
Gain on settlement of accounts payable	-	-	(138,245)	(4,968)
Unrealized loss (gain) on marketable securities	2,720	6,400	480	9,600
Loan structuring cost	628,337	-	1,629,447	-
Accretion on promissory notes and convertible debt	198,420	3,781	342,316	21,230
Changes in non-cash working capital items:				
Accounts receivable	(442,278)	(64,863)	757,795	(493,881)
Current portion of deposits and prepayments	(301,860)	-	(229,538)	-
Accounts payable and accrued liabilities	599,452	2,053,531	(2,765,743)	(5,264,242)
Net cash provided by (used in) operating activities	835,161	3,173,876	(125,812)	679,124
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issuance costs	-	-	-	(8,800)
Proceeds from stock options exercised	-	-	-	210,000
Proceeds from warrants exercised	-	-	-	31,209
Repayment of lease liabilities	(72,917)	-	(186,987)	-
Repayment of promissory note	(127,251)	-	(254,668)	-
Proceeds from revolving note	-	1,640,000	3,006,995	16,276,768
Repayment of revolving note	-	(1,245,960)	(2,017,014)	(3,585,657)
Foreign exchange on revolving note	-	411,272	-	3,881,330
Revolving note closing costs	(119,652)	41,802	(122,988)	(68,711)
Net cash provided by (used in) financing activities	(319,820)	847,114	425,338	16,736,139
CASH FLOWS FROM INVESTING ACTIVITIES				
Deposit	(13,065)	(103,362)	(13,065)	(71,371)
Additions to property, plant and equipment	(212,083)	9,897,738	(421,061)	(81,638)
Change in exploration and evaluation assets	(192,793)	(14,688,290)	(633,181)	(16,417,899)
Net cash used in investing activities	(417,941)	(4,893,914)	(1,067,307)	(16,570,908)
Change in cash	97,400	(872,924)	(767,781)	844,355
Cash, beginning of period	245,122	1,858,011	1,110,303	140,722
Cash, end of period	\$ 342,522	\$ 985,077	\$ 342,522	\$ 985,077

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

NOTES TO THE 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 & gas properties in west-central Saskatchewan.

The Company's corporate headquarters are at 1000 – 207 9 Ave SW, Calgary, Alberta, 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".

The business of exploring and developing energy and resource deposits involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable operations. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

In March 2020, the World Health Organization declared a global pandemic related to the COVID-19 virus. The impacts on global commerce have been far reaching. To date, there have been significant wide-spread stock market declines and the movement of people and goods has become restricted, affecting supply, demand and pricing for many products. Commodity prices have declined since December 31, 2019 in the wake of the COVID-19 pandemic. 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. During Q2 2020, in order to minimize the loss from operations due to low crude oil price, the Company greatly curtailed production. This production was restored during Q3 2020.

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. The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of September 30, 2020.

Going Concern

These interim financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that Saturn will be able to realize its assets and discharge its liabilities in the normal course of business.

The oil and natural gas commodity price environment has been extremely volatile and depressed over the last few years. Saturn has, to the best of its ability, managed through this low commodity price environment by maintaining an active risk management program by managing its capital program and operations with cash flows, debt and equity capital. However, the recent downturns in global oil prices resulted in deterioration in the fair value of its reserves and the Company's projected cash flows over the next 12 months. Such forecasts may change based upon actual revenue received during the year, changes in future oil and natural gas pricing and future business plans.

At September 30, 2020, the amount outstanding on the revolving note facility ("Revolving Notes"), which mature in September 2022, aggregated to US\$19.7 million. Effective May 1, 2020, the borrowing base on the Revolving Notes was amended to from US\$20.0 million to US\$13.5 million and the holders of the Revolving Notes agreed to waive the requirements to repay the Borrowing Base Shortfall (note 11). While Saturn and its lenders continue to work towards a long-term solution on the credit facilities, there is no assurance that Saturn will be able to further renew, extend or replace the credit facilities on terms that are favorable to the Company. The Revolving Facility is subject to

semi-annual reviews of the borrowing base. The lenders are, however, entitled to proceed with a redetermination at their discretion. The lenders also have sole discretion on the determination of the borrowing base, which is based predominately on the amount of the Company's proved developed producing oil and natural gas reserves. The Company agreed to direct excess funds, after payment of all operating, general and administrative ("G&A") and other costs of conducting its business, to the repayment of borrowings on the Revolving Notes and to not make any requests for further advances under that facility. The current state of the Canadian energy industry coupled with significant declines in commodity prices since December 31, 2019 have negatively impacted the available amount of credit facilities within the industry. The Revolving Facility has financial covenants as more fully described in the Annual Financial Statements. At current forecasted forward prices for crude oil, Management is forecasting a breach in certain covenants within the next 12 months.

Furthermore, there are no assurances that the lenders will maintain the borrowing base at current levels, which may result in a borrowing base shortfall. If the Company cannot repay a borrowing base shortfall, it would represent an event of default under both the Revolving Facility and the Senior Notes. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both facilities.

Due to these factors, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These interim financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying interim financial statements. Such adjustments could be material.

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:

- 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;

f) In the determination of fair value of promissory and convertible notes, the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, the Company 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 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 G&A 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; and

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 are 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;
- 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; and
- 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, 2019. These condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2019. 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.

The accounting policies set out below have been applied consistently to all years presented in these statements.

4. MARKETABLE SECURITIES

	Shares
Balance, December 31, 2018	\$ 32,000
Change in fair value	(28,320)
Balance, December 31, 2019	3,680
Change in fair value	480
Balance, September 30, 2020	\$ 3,200

5. 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	419,870	-	1,192	421,062
Balance, September 30, 2020	\$ 49,542,042	\$ 935,448	\$ 257,037	\$ 50,734,527
Accumulated amortization:				
Balance, December 31, 2019	\$ 8,955,960	\$ 207,972	\$ 125,040	\$ 9,288,972
Depletion and amortization expense	3,353,028	127,047	60,624	3,540,699
Balance, September 30, 2020	\$ 12,308,988	\$ 335,019	\$ 185,664	\$ 12,829,671
Balance, December 31, 2019	\$ 40,166,212	\$ 727,476	\$ 130,805	\$ 41,024,493
Balance, September 30, 2020	\$ 37,233,054	\$ 600,429	\$ 71,373	\$ 37,904,856

As at September 30, 2020, an estimated \$156,554,000 (December 31, 2019 - \$156,762,000) in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion.

6. EXPLORATION AND EVALUATION ("E&E") 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.

	September 30, 2020	December 31, 2019
Beginning balance	\$ 4,115,466	\$ 3,547,016
Additions	340,966	2,874,715
Transfer to producing assets	(207,786)	(2,092,872)
Write-off of exploration, evaluation and producing assets	-	(213,393)
Ending balance	\$ 4,248,646	\$ 4,115,466

During the period ended September 30, 2020, Saturn capitalized \$270,908 (December 31, 2019 – \$511,958) of directly attributable G&A expenses to E&E assets.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	December 31, 2019
Accounts payable and accrued liabilities	\$ 5,046,115	\$ 8,217,619
GST payable	39,778	-
Interest payable	519,992	292,254
	\$ 5,605,885	\$ 8,509,873

During the period ended September 30, 2020, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of \$NIL (December 31, 2019 - \$4,968).

8. PROMISSORY NOTES

During the year ended December 31, 2019, the Company received proceeds from promissory notes in the amount of \$500,000. The promissory note bore interest at 5% and was subordinated to defer the payment to September 2022. During Q2 2020, the note was transferred and is no longer payable by the Company.

During the year ended December 31, 2019, the Company has recognized a note payable to a third party in the amount of \$966,856 for the payment of financing fees relating to the Revolving Notes entered into in September 2018. Assumptions used in determining the expensed portion of the note were a term ending in March 2022 and an interest rate of 8.2%.

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 2,122,050	\$ 762,370
Additions	-	1,466,856
Repayment	(254,668)	-
Reduction	(500,000)	-
Fair value adjustment on modification	-	(160,554)
Interest and accretion	70,570	53,378
Balance, end of period	\$ 1,437,952	\$ 2,122,050
Current	429,383	333,930
Long-term	1,008,569	1,788,120

9. ASSET RETIREMENT OBLIGATION

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 3,150,298	\$ 1,478,872
Additions	-	1,790,739
Reclamation of abandoned wells	-	(147,500)
Accretion	25,870	28,187
Balance, end of period	\$ 3,176,168	\$ 3,150,298

The asset retirement obligation reflects 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. These obligations have been discounted using a risk-free rate between 1.51% to 2.16% and an inflation rate between 1.5% to 2.2% per year.

10. CONVERTIBLE NOTES

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

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

The convertible note was amended to extend the maturity date to September 2022 as part of a subordination agreement in relation to the Revolving Note. The modification occurred on January 1, 2019. The other terms of the note remained unchanged. The assumptions used in determining the liability portion of the extended convertible note were a term of 3.75 years and in interest rate of 7.1% if there were no conversion rights.

- b) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,500,000 from a shareholder 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 \$0.15 per share, at the option of the holder. During the year ended December 31, 2019, \$750,000 of the principal portion of the note was converted into common shares of the Company at a conversion price of \$0.15 per share.

The convertible note was amended to extend the maturity date to September 2022 as part of a subordination agreement in relation to the Revolving Note. The modification occurred on January 1, 2019. The other terms of the note remained unchanged. The assumptions used in determining the liability portion of the extended convertible note were a term of 3.75 years and in interest rate of 7.1% if there were no conversion rights.

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 1,889,276	\$ 2,332,659
Converted to shares	-	(755,103)
Fair value on modification	-	(16,739)
Accretion and interest	109,776	152,010
Reclassification of prior year accrued interest	-	142,971
Balance, end of period	\$ 1,999,052	\$ 1,889,276

11. REVOLVING NOTES

	September 30, 2020	December 31, 2019
Prudential Capital Energy Partners, L.P.	\$ 23,419,205	\$ 21,941,622
Prudential Capital Energy Partners Management Fund	2,921,931	2,737,576
Loan financing costs	(4,192,791)	(5,695,911)
Balance, end of period	\$ 22,148,345	\$ 18,983,287
Current	-	\$ 7,500,000
Non-current	\$ 22,148,345	\$ 11,483,287

On September 14, 2018, the Company entered into a US\$20 million secured reserved based revolving note facility (“Revolving Facility”) from Prudential Capital Energy Partners, L.P. and Prudential Capital Energy Partners Management Fund. As at September 30, 2020, the Company has drawn US\$19.75 million (CDN\$26.91 million equivalent using the September 30, 2020 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, 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 Company was in breach of the asset coverage ratio at the end of the period. In May 2020, the holders of the revolving notes delivered to the Company a Borrowing Base Adjustment Letter as the Company is in a Borrowing Base Deficiency, thus reducing the Borrowing Base from US\$20.0 million to US\$13.5 million. Notwithstanding the Borrowing Base Shortfall, the holders have waived the requirements in Section 3.4(a) of the Note Agreement to repay the Borrowing Base Shortfall within 30 days or in five equal monthly payments beginning 30 days after the holders’ notice of the Borrowing Base Shortfall.

The holders have waived the payment of the additional interest of 2.00% per annum otherwise due under Section 3.4(b) of the Note Agreement as a result of the Borrowing Base Shortfall. For certainty, any additional interest payable from time to time under Section 3.4(b) as a result of any Borrowing Base Deficiency (other than the Borrowing Base Shortfall) and any Default Interest are still payable and the above waiver does not apply to same.

The borrowing base is subject to a quarterly redetermination, with the next redetermination scheduled for December 2020.

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 Revolving Facility is due September 22, 2022.

In 2018, the Company issued 30,505,122 warrants related to the Revolving Facility. 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 have a fair value of \$5,147,334 at inception using the Black-Scholes model and the assumptions noted below. During the nine months ended September 30, 2020, warrant liability was reduced by \$705,319 (December 31, 2019 - \$1,432,049) and a corresponding gain 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 \$0.24, share price of \$0.25 at inception and \$0.09 at period-end (December 31, 2019 – \$0.14), terms of maturity date of September 15, 2022, volatility of 98%, dividend yield of nil and risk-free interest rates of 1.88% at inception and 2.23% at period-end. During the nine-month period ended September 30, 2020, \$1,629,447 (December 31, 2019 - \$1,663,220) in deferred loan financing costs related to the revolving facility have been amortized.

Covenants

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

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

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

- interest coverage, pursuant to which the ratio of EBITDAX for the four quarters most recently ended (at December 31, the previous two quarters multiplied by two) to financing charges to be less than 2.25 to 1.00;
- asset coverage, pursuant to the adjusted PV10 to indebtedness to be less than 1.35 to 1.00.

PV 10 is defined as at any time, the discounted future net revenue from Proved Oil and Gas Properties at such time, as reflected in the most recent determination thereof certified by a Responsible Officer and delivered by the Company as applicable, and calculated using Average Strip Pricing and adjusted to reflect (a) Specified Assumptions and (b) the full effect of Hedging Transactions of the Company and its Subsidiaries; provided that not less than 70% of such discounted future net revenue shall be from PDP Reserves. The Company was in breach of the asset coverage ratio as at September 30, 2020.

12. LEASE LIABILITIES

The office lease is accounted for by recognizing a right-of-use asset and a lease liability at the inception of a lease. The right-of-use asset was initially measured at the amount of the lease liability adjusted for any prepayments. The lease liability was initially measured at the present value of the contractual payments due to the lessor over the lease term. The discount rate used to determine the present values is the incremental borrowing rate for the underlying assets as at January 1, 2019.

Subsequent to initial measurement, lease liabilities are reduced by lease payments plus interest associated with the effect of discounting during the reporting period. Right-of-use assets are recorded at cost and amortized over the remaining life of the lease.

The following is a breakdown of the Company's right-of-use assets and lease liability:

Right-of-use asset – office lease	
Balance, January 1, 2019	\$ 935,448
Amortization	(207,972)
Balance, December 31, 2019	727,476
Amortization	(92,407)
Balance, September 30, 2020	635,069
Lease liability – office lease	
Balance, January 1, 2019	\$935,448
Lease payments	(242,647)
Interest and accretion expense	64,900
Balance, December 31, 2019	757,701
Lease payments	(157,820)
Interest and accretion expense	41,430
Balance, September 30, 2020	\$641,311
Current	\$ 129,372
Long-term	\$ 511,939

Also included in the current lease liability at September 30, 2020 is \$91,375 related to equipment leases.

13. WARRANT LIABILITY

	September 30, 2020	December 31, 2019
Beginning balance	\$ 1,965,285	\$ 3,397,334
Change in fair value	(705,319)	(1,432,049)
Ending balance	\$ 1,259,966	\$ 1,965,285

14. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2020, the Company incurred the following transactions with directors, officers and other key management personnel:

Compensation	Nine months ended September 30	
	2020	2019
Consulting and geological in exploration and evaluation assets	\$ -	\$ 125,310
Key management compensation	497,373	280,833
Legal fees	21,823	39,976
Rent expense recovery	(80,319)	(28,079)
Share based payments	426,219	276,994
Total	\$ 865,096	\$ 695,034

As at September 30, 2020, the Company owed \$NIL (September 30, 2020 - NIL) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company.

15. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

During the nine months ended September 30, 2020 the Company:

- a) Issued 4,375,000 options with an exercise price of \$0.10 per option.
- b) Forfeited 7,100,000 options with a weighted average exercise price of \$0.10 per option.
- c) Expired 1,525,000 options with a weighted average exercise price of \$0.20 per option.

During the year ended December 31, 2019, the Company:

- d) Issued 210,700 shares on exercised warrants at a weighted average price of \$0.15 per warrant.
- e) Issued 1,400,000 shares on exercised stock options at a price of \$0.15 per option.
- f) Issued 5,000,000 shares on the conversion of a note payable 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, 2018	64,461,650	\$ 0.21
Exercised	(210,700)	0.15
Expired	(661,875)	0.15
Balance, December 31, 2019	63,589,075	0.21
Expired	(28,500,621)	0.18
Balance, September 30, 2020	35,088,454	\$ 0.24

As at September 30, 2020, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
November 16, 2020	4,583,332	\$ 0.30
September 14, 2022	30,505,122	\$ 0.24
	35,088,454	

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 45,875,000 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 five 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 and 10% on the date of grant and 7.5% 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, 2018	24,275,000	0.11
Granted	10,200,000	0.15
Exercised	(1,400,000)	0.15
Forfeited/expired	(800,000)	0.20
Balance, December 31, 2019	32,275,000	0.13
Granted	4,375,000	0.10
Forfeited/expired	(8,625,000)	0.12
Balance, September 30, 2020	28,025,000	\$ 0.13
Exercisable, September 30, 2020	21,355,000	\$ 0.14

As at September 30, 2020, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
January 29, 2021	500,000	\$ 0.15
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	4,100,000	\$ 0.20
September 24, 2023	400,000	\$ 0.22
May 24, 2024	500,000	\$ 0.14
August 19, 2024	2,000,000	\$ 0.12
October 15, 2024	3,300,000	\$ 0.15
October 30, 2024	3,000,000	\$ 0.15
April 15, 2025	500,000	\$ 0.10
June 25, 2025	3,875,000	\$ 0.10
	28,025,000	

During the period ended September 30, 2020, the Company granted 4,375,000 (2019 – 1,300,000) stock options with an initial fair market value of \$396,054 (2019 - \$87,014) or \$0.10 (2019 - \$0.18) per option. The Company expensed \$343,100 (2019 - \$339,234) to operations for the options that vested during the period ended September 30, 2020. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	0.37%	1.78%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	100.15%	99.95%

Earnings (loss) Per Share	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net income (loss) for the period	\$ (3,160,510)	\$ 2,825,739
Weighted average number of common shares basic and diluted	234,573,715	234,573,715
Basic and diluted net income (loss) per share	\$ (0.01)	\$ 0.01

In calculating the weighted-average number of diluted common shares outstanding for the period ended September 30, 2020 and 2019, all equity-settleable share-based instruments are excluded from the diluted weighted average shares calculation. For the periods presented, this calculation proved to be anti-dilutive.

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, 2020, 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 September 30, 2020.

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, 2020, the Company had \$342,522 (December 31, 2019 - \$1,110,303) in cash and cash equivalents and \$6,256,015 (December 31, 2019 - \$16,685,483) 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 September 30, 2020:

	<1 Year	1-2 Years	>2 Years
Accounts payable and accrued liabilities	\$ 5,605,885	\$ -	\$ -
Promissory notes	429,393	369,703	638,866
Convertible notes	-	-	1,999,052
Revolving notes	-	-	22,148,345
Lease liabilities	220,747	137,148	374,791

Notes:

(1) Includes the notional principal and interest payments

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. The risk is mitigated by only dealing with credit worthy companies.

c) 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. For the nine months ended September 30, 2020, a 10% strengthening or weakening of the US dollar will contribute a \$2.7 million increase or decrease to the Company's net loss before tax (2019 – \$2.4 million).

d) 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 \$0.16million for the nine months ended September 30, 2020 (nine months ended September 30, 2019 – \$0.12 million) assuming all other variables remain constant.

f) Commodity 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.

In 2019, Saturn entered into a derivative instrument to manage its exposure to price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows.

The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

September 30, 2020		Crude Oil
Derivative instruments receivable – current		\$ 380,502

December 31, 2019		Crude Oil
Derivative instruments payable – current		\$ 195,519

The follow table summarizes commodity derivative transactions as at September 30, 2020:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price/bbl
Crude Oil Collar			
October 1, 2020 – January 31, 2021	CAD\$ WTI	400	\$65.40/\$75.40

The following shows the breakdown of realized and unrealized gains (losses) recognized for the three and nine month periods ended September 30, 2020 and 2019:

Three months ended September 30,	2020	2019
Realized gain (loss) on derivative instruments	399,980	(471)
Unrealized gain (loss) on derivative instruments	(456,419)	-
Total loss	(56,439)	(201,671)

Nine months ended September 30,	2020	2019
Realized gain (loss) on derivative instruments	1,669,846	(231,580)
Unrealized gain (loss) on derivative instruments	576,021	-
Total gain (loss)	2,245,867	(231,580)

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 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	\$ 342,522	\$ 342,522
Amounts receivable	Amortized cost	870,396	870,396
Marketable securities	FVTPL	3,200	3,200
Derivative instruments	FVTPL	380,502	380,502
Accounts payable and accrued liabilities	Amortized cost	5,605,885	5,605,885
Promissory notes	Amortized cost	1,437,962	1,437,962
Convertible notes	Amortized cost	1,999,052	1,999,052
Revolving notes	Amortized cost	22,148,345	22,148,345
Lease liabilities	Amortized cost	272,686	272,686
Warrant liability	FVTPL	1,259,966	1,259,966

The estimated fair value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and promissory note 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.

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.