



Management's Discussion and Analysis

SATURN OIL & GAS INC.

For the three months and year ended December 31, 2019

(in Canadian Dollars)

SATURN AT-A-GLANCE

Saturn Oil & Gas Inc. (TSX.V: SOIL) (FSE: SMK) is a public energy Company focused on the acquisition and development of undervalued, low-risk assets. Saturn is driven to build a strong portfolio of cash flowing assets with strategic land positions. De-risked assets and calculated execution will allow Saturn to achieve growth in reserves and production through retained earnings. Saturn's portfolio will become its key to growth and provide long-term stability to shareholders.

\$18.3 M

2019 Revenue

\$51.84/bbl

**2019 Operating
Netback***

\$12.7 M

**2019 Adjusted
EBITDAX***

\$875,047 Bbls

**Gross Proved +
Probable Reserves**

\$26.5 M

**2019 Proved Developed
Producing NPV10****

766 Bbls/d

**2019 Net Average
Production**



*See "Non-IFRS Measures"

** Based on Saturn's December 31, 2019 annual year end independent reserves evaluation

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of Saturn Oil & Gas Inc. (the "Company" or "Saturn") has been prepared by management in accordance with the requirements of National Instrument of 51-102 as of December 31, 2019, and should be read in conjunction with the audited financial statements for the twelve months ended December 31, 2019 and 2018 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a "Venture Issuer" as defined in NI 51-102 Continuous Disclosure Obligations. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com and the Company's website at www.saturnoil.com.

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

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

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

OVERVIEW OF THE BUSINESS

Saturn Oil & Gas Inc. was incorporated under the laws of British Columbia on August 16, 2001 and continued into the province of Saskatchewan on December 17, 2018. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company's current focus is to advance the exploration and development of its oil and gas properties in west-central Saskatchewan. In January 2017, the Company changed its strategic direction from a mining / mineral exploration company to an entity focused on the acquisition and development of oil and gas assets and the subsequent successful production of hydrocarbon from primarily crude oil weighted properties in the Western Canadian Sedimentary Basin.

The Company's corporate headquarters are at Suite 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 and trade under the symbol "SOIL".

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

SELECT QUARTERLY AND ANNUAL HIGHLIGHTS

(\$, except per unit amounts)	Three months ended December 31,		Twelve months ended December 31,	
	2019	2018	2019	2018
Financial				
Oil revenue	4,454,008	1,463,592	18,294,103	4,522,563
Net income (loss)	(1,450,606)	(1,415,443)	822,242	(1,523,123)
Per share – basic & diluted	(0.01)	(0.01)	0.00	(0.01)
Sales Volumes				
Crude oil (bbls/d)	753	415	766	233
Natural gas (Mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	-	-	-	-
Total (bbls/d)	753	415	766	233
% liquids	100%	100%	100%	100%
Average Realized Prices				
Crude Oil (\$/bbl)	64.25	30.20	65.47	48.52
Natural gas (\$/Mcf)	-	-	-	-
Natural gas liquids (\$/bbl)	-	-	-	-
Total (\$/bbl)	64.25	30.20	65.47	48.52
Operating Netback¹ (\$/bbl)				
Realized price	64.25	30.20	65.47	48.52
Royalties	2.36	1.22	2.87	4.99
Operating costs	10.59	14.15	10.76	13.32
Operating netback¹	51.31	14.82	51.84	30.22
Realized loss on derivative instruments	0.63	-	0.98	-
Operating netback, after realized loss on derivative instruments	50.68	14.82	50.85	30.22

1) See “Non-IFRS Measures”

2019 YEAR-END RESERVES:

Proved Developed Producing (“PDP”)

- 57% increase to 875.0 million barrels (“Mbbbls”)
- 53% increase on a per share (basic) basis
- 26% growth in net present value discounted at 10% (before tax) (“NPV10 BT”)
- Achieved FD&A costs of \$29.38/bbl and F&D costs of \$27.34/bbl
- Generated FD&A and F&D recycle ratios of 1.8x and 1.9x, respectively
- Total PDP reserve additions of 0.6 million barrels replaced 213% of production
- PDP reserves represent 24% of the TP reserves, consistent with the prior year

Total Proved (“TP”)

- 65% increase to 3,612.5 Mbbbls
- 60% increase on a per share (basic) basis
- 29% growth in NPV10 BT
- Achieved FD&A costs of \$28.98/bbl and F&D costs of \$28.26/bbl
- Generated FD&A and F&D recycle ratios of 1.8x
- Total TP reserve additions of 1.7 million barrels replaced 603% of production
- TP reserves represent 49% of the TP+P reserves, consistent with the prior year

Total Proved + Probable (“TP+P”)

- 63% increase to 7,418.0 Mbbbls
- 58% increase on a per share (basic) basis
- 22% growth in NPV10 BT
- Achieved FD&A costs of \$26.21/bbl and F&D costs of \$25.82/bbl
- Generated FD&A and F&D recycle ratios of 2.0x
- Total TP+P reserve additions of 3,145.6 million barrels replaced 1,113% of production

Reserves Summary	December 31, 2019	December 31, 2018
Proved developed producing (bbls)	875,000	557,080
Total proved (bbls)	3,612,500	2,190,603
Total proved plus probable (bbls)	7,418,000	4,554,972
Proved developed producing – NPV10 ⁽¹⁾	26,454,000	21,039,000
Total proved – NPV10 ⁽¹⁾	61,052,000	47,348,000
Total proved plus probable – NPV10 ⁽¹⁾	111,650,000	91,369,000

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

2019 HIGHLIGHTS:

- Saturn’s strategy continues to be focused on the acquisition and development of high-quality Viking light oil assets.
- Saturn was successful in drilling and bringing on-line 17 extended reach horizontal (“ERH”) Viking wells. This includes eleven wells in Prairiedale, two in Loverna, two in Milton and two in Kerrobert.
- Production averaged 766 bbls/day, with a peak production rate of over 1,450 bbls/day.
- Adjusted EBITDAX (before pro-forma adjustments) was \$12.7 million, a \$11.8 million increase from the same period in 2018 (see “Non-IFRS Measures”), primarily due to the successful drilling of wells and an increase in operating netbacks (see “Non-IFRS Measures”).
- Net income for the year ending December 31, 2019 was \$822,242, compared to net loss of \$1.52 in the same period of 2018. The increase of \$2.35 million was primarily a result of increased production, and higher operating netbacks (see “Non-IFRS Measures”), net of increases in interest on long-term debt and non-cash loan structuring costs and amortization and depletion expenses.
- Saturn’s operating netback (see “Non-IFRS Measures”) before realized loss on derivatives was \$51.84/bbl, an increase of \$21.63/bbl from the same period in 2018. The increase was primarily due to a decrease of \$2.12/bbl in royalty costs and a decrease of \$2.56/bbl in operating costs. The decrease in royalty costs was due to the drilling of wells on crown land where realized royalties are much lower than those drilled on freehold land.
- Saturn successfully drilled, completed, equipped and tied-in (“DCET”) a total of 17 100% working interest (“WI”) wells for total DCET expenditures of \$17.53 million, or approximately \$1.03 million per well.
 - In Milton, two 100% WI ERH wells were drilled in Q1 2019 with an area average 30-day production rate (“IP30”) of 62 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 102/12-11-030-27W3/00 with an IP30 of 74 bbls/d (see “Advisory Regarding Oil and Gas Information”).
 - In Kerrobert, two 100% WI ERH wells were drilled with an area average 30-day production rate (“IP30”) of 148 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 104/09-09-032-24W3/00 with an IP30 of 158 bbls/d (see “Advisory Regarding Oil and Gas Information”).
 - In Prairiedale, eleven 100% WI ERH wells were drilled with an area average IP30 of 111 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 105/14-01-033-27W3 with an IP30 of 175 bbls/d (see “Advisory Regarding Oil and Gas Information”).

- In Loverna, two 100% WI ERH wells were drilled with an area average IP30 of 120 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 103/08-11-031-29W3 with an IP30 of 146 bbls/d (see “Advisory Regarding Oil and Gas Information”).
- At December 31, 2019, Saturn had US\$19.00 million of borrowings (CAD\$24.68 million converted at an exchange rate of \$1.00 USD to \$1.2988 CAD on December 31, 2019) drawn against its US\$20.00 million Revolving Note (CAD\$25.98 million using the period-end exchange rate).

FOURTH QUARTER 2019 HIGHLIGHTS:

- Production averaged 753 bbls/day for the fourth quarter of 2019 compared to 527 bbls/day in the same quarter of 2018.
- Saturn’s operating netback (see “Non-IFRS Measures”) before realized loss on derivatives was \$51.31/bbl for the fourth quarter of 2019, an increase of \$36.48/bbl from the fourth quarter of 2018. The increase was primarily due to an increase of \$34.05/bbl in realized price.
- Net loss for the fourth quarter 2019 was \$1,452,883, compared to a net loss of \$1,415,443 in the same quarter of 2018.
- Saturn was successful in the DCET of four 100% working interest wells for total DCET expenditures of \$3.86 million, or approximately \$965,000 per well.
 - In Prairiedale, two 100% WI ERH wells were drilled with an area average IP30 of 99 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 102/16-01-033-27W3 with an IP30 of 122 bbls/d (see “Advisory Regarding Oil and Gas Information”).
 - In Loverna, two 100% WI ERH wells were drilled with an area average IP30 of 120 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 103/08-11-031-29W3 with an IP30 of 146 bbls/d (see “Advisory Regarding Oil and Gas Information”).

OUTLOOK

In March 2020, the COVID-19 pandemic coupled with the price war between Saudi Arabia and Russia resulted in significant downfall in global oil prices. Saturn is cautious with its capital spending in light of uncertainties around worldwide energy consumption and supplies and the duration of this turmoil. The Company plans to suspend its capital program to preserve future development economics until oil prices recover and stabilize. Over 60% of Saturn’s 2020 forecast base oil production (net of royalties) is hedged, which is expected to help the Company endure the current economic situation. In addition, Saturn is continually reviewing its 2020 budget, including exploring all avenues to reduce debt, G&A and operating expenses, including implementing a 20% reduction on all management salaries.

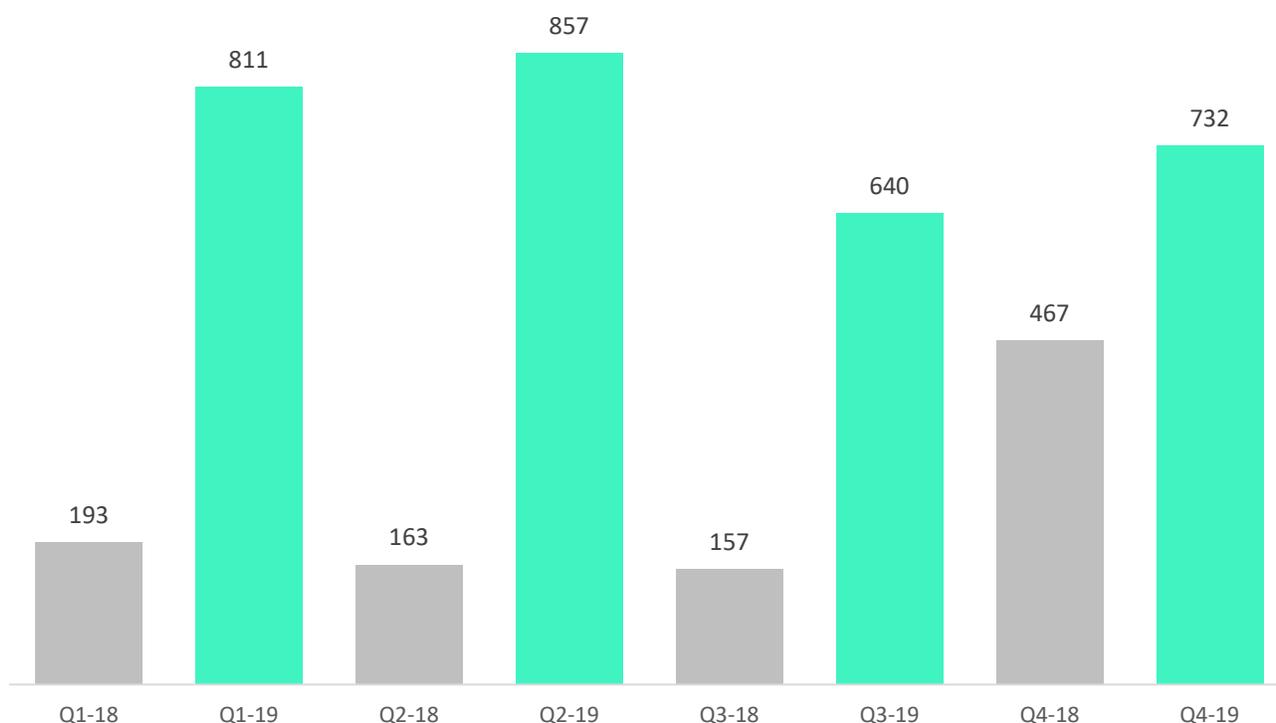
RESULTS OF OPERATIONS

Production

	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Production Volumes				
Crude oil (bbls/d)	732	467	752	237
Natural gas (Mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	-	-	-	-
Total (bbls/d)	732	467	752	237
% liquids	100%	100%	100%	100%

Saturn's production for the three and twelve months ended December 31, 2019 increased 57% and 217%, respectively, compared to the corresponding periods in 2018. The Company's effort to focus on light oil opportunities resulted in the successful DCET of four 100% WI ERH wells in the third quarter for a total of 13 year-to-date.

Production (bbls/d)



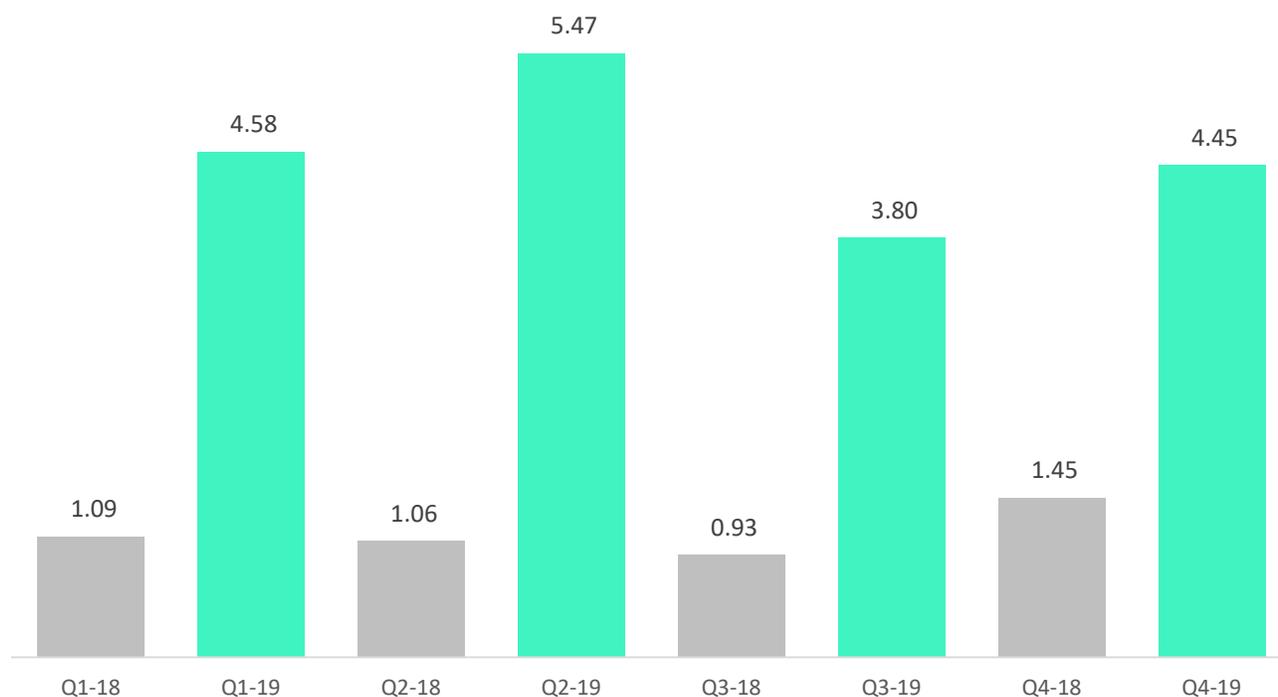
Revenue

(\$, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Revenue				
Crude oil	4,454,008	1,463,592	18,294,103	4,522,563
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
Average Realized Prices				
Crude Oil (\$/bbl)	64.25	30.20	65.47	48.52
Natural gas (\$/Mcf)	-	-	-	-
Natural gas liquids (\$/bbl)	-	-	-	-
Total (\$/bbl)	64.25	30.20	65.47	48.52
Operating Netback¹ (\$/bbl)				
Realized price	64.25	30.20	65.47	48.52
Royalties	2.36	1.22	2.87	4.99
Operating costs	10.59	14.15	10.76	13.32
Operating Netback¹	51.31	14.82	51.84	30.22
Realized loss on derivative instruments	0.63	-	0.98	-
Operating netback, after realized loss on derivative instruments	50.68	14.82	50.85	30.22

1) See "Non-IFRS Measures"

Saturn's fourth quarter revenue increased by 204%, or \$2.99 million, from the fourth quarter of 2018. On an annual basis, revenue increased by 305%, or \$13.77 million, in 2019 over 2018. The increase in revenue is due to the increase in realized price as well as the significant increases in production.

Revenue (\$MM)

**Royalties**

(\$, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Royalties	163,253	59,356	803,119	463,370
Per bbl	2.36	1.22	2.87	4.99
Percentage of revenue	3.7%	4.1%	4.4%	10.3%

Saturn pays royalties to the Saskatchewan government and landowners in accordance with the established royalty regime. During the same period in 2018, a significant portion of the royalties paid to landowners were freehold, which are paid at a much higher percentage than Crown royalties paid to the Saskatchewan government. As the Company drilled more wells on Crown land through 2019, royalties as a percentage of revenue decreased.

Commodity Price and Risk Management

Saturn enters into derivative risk management contracts to manage exposure to commodity price fluctuations and to protect and provide certainty on a portion of the Company's cash flows. Saturn considers these derivative contracts to be an effective means to manage cash flows from operations.

(\$, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Realized loss on derivative	43,393	-	274,973	-
Unrealized loss on derivative instruments	195,519	-	195,519	-
Total loss on derivative instruments	238,912	-	470,492	-

\$Per bbl	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Realized loss on derivative	0.63	-	0.98	-
Unrealized loss on derivative instruments	2.82	-	0.70	-
Total loss on derivative instruments	3.45	-	1.68	-

The following table summarizes the commodity derivative transactions at December 31, 2019. No contracts were placed at December 31, 2018:

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

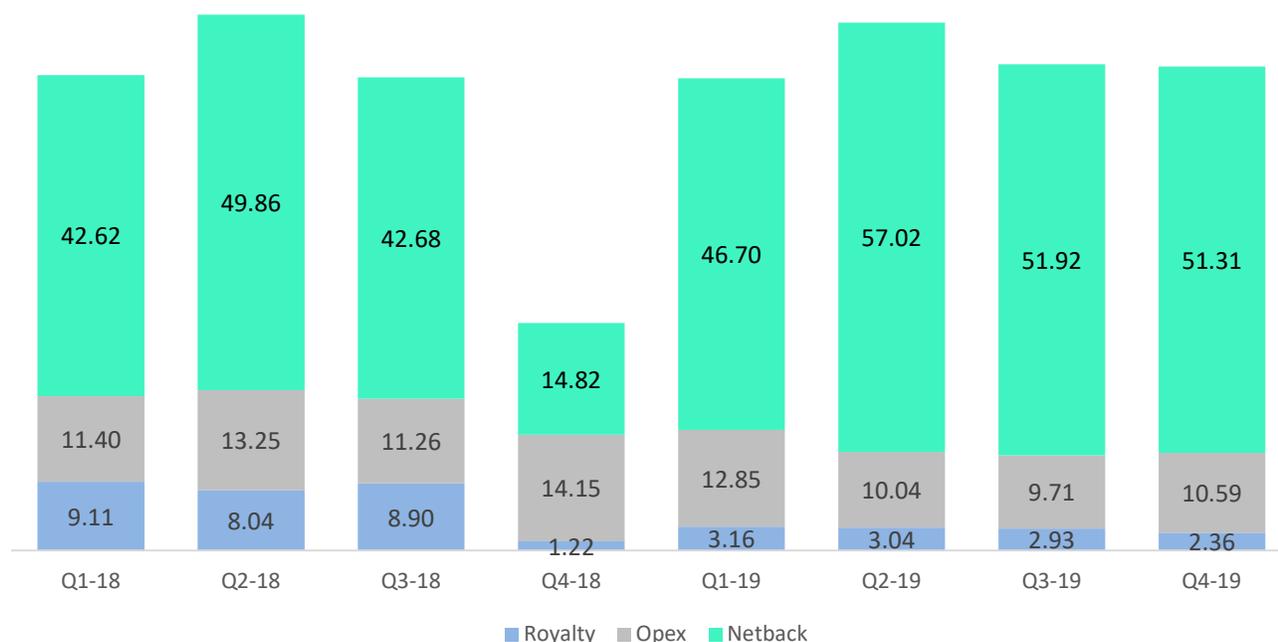
Operating Netback¹

(\$ per bbl)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Revenue	64.25	30.20	65.47	48.52
Royalties	2.36	1.22	2.87	4.99
Operating costs	10.59	14.15	10.76	13.32
Operating netback ¹	51.31	14.82	51.84	30.22
Realized loss on derivative instruments	0.63	-	0.98	-
Operating netback, after realized loss on derivative instruments	50.68	14.82	50.85	30.22

1) See "Non-IFRS Measures"

Saturn's operating netbacks after realized hedging losses increased by \$35.86/bbl and \$20.63/bbl for the three and twelve months ended December 31, 2019, respectively, compared to the corresponding periods in 2018. The increase was primarily due to an increase in realized price of \$64.05/bbl and \$16.95/bbl for the same periods.

Netback (\$/boe)



Share-based Compensation

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 32,275,000 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's common shares on the grant date. The options can be granted with 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.

During the fourth quarter of 2019, Saturn granted 6.9 million options of the company at a weighted average \$0.15 per option.

During the year ended December 31, 2019, Saturn expensed \$770,084 in share-based compensation (2018 - \$639,210).

Revolving Notes

	December 31, 2019	December 31, 2018
Prudential Capital Energy Partners, L.P.	\$ 21,941,622	\$ 7,336,038
Prudential Capital Energy Partners Management Fund	2,737,576	678,139
Loan financing costs	(5,695,911)	(5,969,938)
Balance, end of period	\$ 18,983,287	\$ 2,044,239
Current	7,500,000	-
Non-current	18,983,287	2,044,239

On September 14, 2018, the Company entered into a US \$20 million secured reserve-based revolving note facility ("Revolving Notes") from Prudential Capital Energy Partners, L.P. and Prudential Capital Energy Partners Management Fund. As at December 31, 2019, the Company has drawn US\$19.0 million (CDN\$24.7 million equivalent using the December 31, 2019

exchange rate) under the Revolving Note. Commencing October 12, 2018, on or before the tenth business day of each calendar month, the Company's mandatory prepayment of the note shall be an amount equal to (i) 100% of net proceeds of production for such month less, without duplication, general and administrative ("G&A") costs for such month in an amount such that the total for such month and such fiscal year shall not exceed the G&A costs cap, plus (ii) all proceeds from any sales and other dispositions of oil and gas properties. Interest is paid monthly at the U.S. prime rate plus 10.75% per annum.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of the Company's oil properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is subject to a quarterly redetermination, with the next redetermination scheduled for September 2020.

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

The Company also issued Nil (2018 – 30,505,122) warrants related to the revolving notes. These were determined to be derivatives and have been recognized as a liability as the warrant holder has the option to exercise without providing cash and it receives the number of shares based on the Company share price at the exercise date. The warrants have been recognized as part of loan financing costs and corresponding amount has been included in warrant liability and was determined to have a fair value of \$5,147,334 at inception using the Black Scholes model and the assumptions noted below. At December 31, 2019, warrant liability was reduced by \$1,432,049 (2018 - \$1,750,000) and a corresponding unrealized 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 \$0.14 at year-end (2018 – \$0.19), terms of maturity date of September 15, 2022, volatility of 98% (2018 – 94%), dividend yield of nil and risk-free interest rates of 1.88% at inception and 2.23% at year-end. During the year ended December 31, 2019, \$1,663,220 (2018 - \$64,730) in deferred loan financing costs related to the revolving notes have been amortized

Covenants

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

- total leverage ratio, pursuant to which the ratio of adjusted indebtedness to 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; and
- 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 is not in breach of any covenants at December 31, 2019. The Company was in breach of the total leverage ratio at December 31, 2018 and had obtained a waiver for this breach at that time.

Finance Costs

(\$, except per unit amounts)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Interest expenses	1,066,077	320,123	3,766,105	668,701
Loan structuring costs	1,436,343	59,141	1,663,220	487,251
Total finance cost	2,502,420	379,264	5,429,325	1,155,952
Per bbl	36.10	12.42	19.43	7.91

Interest expense is primarily comprised of the interest incurred on the Company's revolving notes and convertible notes. Interest expense increased \$745,954 and \$3.1 million, respectively, for the three and twelve months ended December 31, 2019 compared to the same periods in 2018. The increases can be attributed to increased average borrowings as well as increased interest paid on the Revolving Notes. Interest expense was \$15.38/bbl for the fourth quarter of 2019 and \$13.48/bbl for the twelve months ended December 31, 2019. Loan structuring costs relate to the expensed portion of deferred loan structuring fees paid on the Revolving Notes.

Gain (Loss) on Foreign Exchange

(\$)	Three months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
Realized gain (loss) on foreign exchange	10,538	627,099	3,209,877	1,707,499
Unrealized gain (loss) on foreign exchange	414,698	(1,031,626)	(2,678,582)	(2,075,381)
Gain (loss) on foreign exchange	425,236	(404,527)	531,295	(367,882)

Foreign exchange gains (losses) incurred in the period related largely to borrowings denominated in US dollars.

Related Party Transactions

During the period ended September 30, 2019, the Company incurred the following transactions with directors, officers and other key management personnel:

Compensation	Years ended December 31,	
	2019	2018
Asset retirement obligation	\$ 210,865	\$ -
Consulting and geological in exploration and evaluation assets	287,608	316,813
Consulting expense	17,330	18,675
Key management compensation	668,059	893,333
Legal fees	73,661	52,984
Legal fees in loan structuring costs	-	5,733
Legal fees in share issuance costs	-	101,886
Rent expense recovery	(78,718)	(24,200)
Share based payments	620,239	813,600
Total	\$ 1,799,044	\$ 2,178,915

As at December 31, 2019, the Company owed \$nil (2018 - \$nil) to its directors, officers, other key management personnel of the Company, or companies controlled by officers of the Company.

SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Company observed the following events:

- a) 1,525,000 stock options expired at a price of \$0.20 per option.
- b) Received proceeds of USD \$2,250,000 (CAD 3,006,995) from the Revolving Notes. Repaid USD \$1,504,097 (CAD 2,017,237).
- c) In March 2020, the World Health Organization declared a global pandemic related to the virus known as COVID-19. The expected impacts on global commerce are anticipated to be 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. The mineral exploration sector is expected to be impacted significantly as many local and regional governments have issued public health orders in response to COVID-19, including restricting the movement of people, which could impact the Company's ability to access its properties and complete exploration, development or production programs in the coming year. Natural resource 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. In order to minimize the loss from operations due to low crude oil prices, the company shut in some batteries in April 2020 with a reduced production level of 250 bbl/day.

NON-IFRS MEASURES

This document contains the terms "operating netback", "netbacks", "net debt", and "adjusted EBITDAX" which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

- (a) **Operating Netback** - Management uses certain industry benchmarks, such as operating netback, to analyze financial and operating performance. These benchmarks do not have standardized meanings prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback equals the sales of oil and gas less royalties and operating expenses on a per bbl or per boe basis. Management considers operating netback an important measure to evaluate its operational performance, as it demonstrates field level profitability relative to current commodity prices. The calculation of the Company's netbacks can be seen on page 6 in the section titled "Operating Netback".
- (b) **Net Debt** - Management closely monitors its capital structure with a goal of maintaining a strong balance sheet to fund the future growth of the Company. The Company monitors net debt as part of its capital structure. Net debt does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The Company calculates net debt as the sum of the long-term debt and lease obligation, less working capital (or plus working capital deficiency). Management uses net debt as an alternative measure of outstanding debt and considers net debt an important measure to assist in assessing the liquidity of the Company. The following outlines the Company's calculation of net debt:

(\$)	Year ended December 31,	
	2019	2018
Revolving notes	11,483,287	2,044,239
Warrant liability	1,965,285	3,397,334
Convertible notes	1,889,276	2,332,659
Promissory notes	1,788,120	-
Lease liabilities	611,540	-
Total debt	17,737,508	7,774,232
Working capital:		
Current assets	2,895,209	1,145,901
Less current liabilities	16,685,483	12,594,368
Working capital deficiency/(surplus)	13,790,274	11,448,467
Net debt	31,527,782	19,222,699

- (c) **Adjusted EBITDAX** – 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), 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 period for the ratios set forth in Section 11.1, which adjustments shall be made in a manner reasonably acceptable to the Required Holders.

(\$)	Three months ended	Year ended
	December 31, 2019	December 31, 2019
Consolidated net loss	(1,450,605)	822,242
EBITDAX adjustments	4,696,032	11,895,312
Adjusted EBITDAX	3,245,457	12,717,554

RISKS AND UNCERTAINTIES

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

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

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

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on companies in extractive industries such as oil and gas or mining in order to minimize long-term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and reasonably re-establish pre-disturbance landforms and vegetation. In order to carry out reclamation obligations imposed on the Company in

connection with ongoing exploration and development, Saturn must allocate financial resources that might otherwise be spent on further exploration and development programs.

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

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

Capital management

The Company manages its capital to safeguard 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 December 31, 2019, 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 year ended December 31, 2019.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2019, the Company had \$1,110,303 (December 31, 2018 - \$140,722) in cash and cash equivalents and \$9,817,813 (December 31, 2018 - \$12,594,369) 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 December 31, 2019:

		<1 Year		1-2 Years		>2 Years
Accounts payable and accrued liabilities	\$	8,509,873	\$	-	\$	-
Promissory notes		333,930		479,158		1,308,962
Convertible notes		-		-		1,889,276
Revolving notes		7,500,000		-		11,483,287
Lease liabilities		146,161		125,000		486,540

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. Saturn limits exposure to credit risk on liquid financial assets by maintaining its cash with high-credit quality financial institutions.

Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated revolving notes. A 10% strengthening or weakening of the US dollar will contribute a \$2.50 million increase or decrease to the Company's net loss before tax (2018 – \$799,000). The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Revolving Notes fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Notes. A change in prime interest rates by 1% would have changed net loss by approximately \$172,500 in 2019 (2018 – \$19,000) assuming all other variables remain constant.

Price risk

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

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 December 31, 2019. No contracts were in place at December 31, 2018:

	Crude Oil
Derivative instruments – current liabilities	\$ 195,519

The following table summarizes commodity derivative transactions as at December 31, 2019:

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

The following shows the breakdown of realized and unrealized losses recognized for the year ended December 31, 2019. No commodity contracts were in place at December 31, 2018:

	Crude Oil
Realized loss on derivative instruments	\$ 274,973
Unrealized loss on derivative instruments	\$ 195,519

Saturn manages the above risks by:

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (“ICFR”)

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

USE OF ESTIMATES

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

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

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

- a) The recoverability of accounts receivable and due from related parties which is included in the statement of financial position;
- b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;
- c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options and warrants;

- d) Fair values of petroleum and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.
- e) Amounts recorded for asset retirement obligation liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk free discount rate used.; and
- f) In the determination of fair value for convertible notes, the Corporation uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, the Corporation seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry.
- g) In the determination of the current portion of the revolving notes, the Corporation relied upon the 2019 year end reserve report to calculate the mandatory prepayment amount.
- h) 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.
- i) 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.
- j) Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing properties requires the use of estimates and judgments and is by its nature subject to measurement uncertainty.
- k) 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:

- l) Going concern of operations;
- m) Determination of categories of financial assets and liabilities;
- n) 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
- o) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based partially on proved and probable reserves.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

PROPOSED TRANSACTIONS

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

ADVISORY REGARDING OIL AND GAS INFORMATION

Where applicable, oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. The use of boe amounts may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

References herein to average 30-day initial production rates and other short-term production rates are useful in confirming the presence of hydrocarbons, however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long term performance or of ultimate recovery. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production for Saturn or the assets for which such rates are provided. A pressure transient analysis or well-test interpretation has not been carried out in respect of all wells. Accordingly, the Company cautions that the test results should be considered to be preliminary.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

OTHER MD&A REQUIREMENTS

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

DIRECTORS AND OFFICERS

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

John Jeffrey	<i>Chief Executive Officer and Director</i>
Geoff Jones	<i>Chief Financial Officer</i>
Ivan Bergerman	<i>Director</i>
Calvin J. Payne	<i>Director</i>
Christopher Ryan	<i>Director</i>
Simon Akit	<i>Director</i>
Jim Payne	<i>Director</i>
Justin Kaufmann	<i>Vice President of Exploration</i>
Stuart Houle	<i>Vice President of Engineering</i>

FORWARD-LOOKING INFORMATION

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

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

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

RECENT ACCOUNTING POLICIES

Please refer to the December 31, 2019 audited financial statements on www.sedar.com.

FINANCIAL INSTRUMENTS

Please refer to the December 31, 2019 audited financial statements on www.sedar.com.