

SATURN OIL & GAS INC.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

As at (CAD \$000s)	September 30, 2021	December 31, 2020 <i>(Restated note 2)</i>	January 1, 2020 <i>(Restated note 2)</i>
ASSETS			
Current assets			
Cash and cash equivalents	14,306	569	1,110
Accounts receivable	17,182	739	1,628
Deposits and prepaid expenses	6,343	44	157
Derivative financial instruments (note 16)	-	47	-
Total current assets	37,831	1,399	2,895
Deposit (note 8)	21,021	440	214
Property, plant and equipment (note 5)	165,227	33,990	38,254
Exploration and evaluation assets (note 4)	4,485	4,485	4,115
Total assets	228,564	40,314	45,478
LIABILITIES			
Accounts payable and accrued liabilities	24,960	6,139	8,510
Senior term loan (note 9)	41,062	-	-
Promissory notes (note 11)	736	479	334
Revolving notes (note 10)	-	25,142	7,500
Lease liabilities (note 6)	871	175	146
Derivative financial instruments (note 16)	29,733	-	196
Total current liabilities	97,362	31,935	16,686
Senior term loan (note 9)	37,457	-	-
Term notes (note 10)	23,472	-	-
Revolving notes (note 10)	-	-	11,483
Promissory notes (note 11)	770	853	1,788
Decommissioning obligation (note 8)	42,501	415	380
Convertible notes (note 12)	2,156	2,038	1,889
Lease liabilities (note 6)	2,898	435	612
Warrant liability (note 7)	4,962	1,032	1,965
Derivative financial instruments (note 16)	37,025	-	-
Total liabilities	248,603	36,708	34,803
SHAREHOLDERS' EQUITY			
Share capital (note 13)	45,469	33,027	33,027
Contributed surplus (note 13)	12,701	8,716	8,027
Warrants (note 13)	14,361	-	-
Deficit	(92,570)	(38,137)	(30,379)
Total shareholders' equity (deficit)	(20,039)	3,606	10,675
Total liabilities and shareholders' equity	228,564	40,314	45,478

See accompanying notes to the condensed interim financial statements

SATURN OIL & GAS INC.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

(CAD \$000s, except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
REVENUE				
Petroleum and natural gas sales (note 14)	48,497	2,127	62,408	5,718
Royalties	(6,850)	(42)	(8,548)	(169)
	41,647	2,085	53,860	5,549
Realized gain (loss) on derivatives (note 16)	(5,117)	400	(6,519)	1,670
Unrealized gain (loss) on derivatives (note 16)	(20,908)	(456)	(66,806)	576
	15,622	2,029	(19,465)	7,795
EXPENSES				
Operating	17,831	515	22,401	1,390
Transportation	352	-	678	-
General and administrative	1,060	236	2,419	796
Depletion depreciation and amortization (note 5)	7,172	1,342	9,936	3,608
Share based payments (note 13)	333	174	293	484
Financing	7,218	1,059	11,002	3,193
Foreign exchange (gain) loss	793	(723)	(108)	698
(Gain) loss on warrant extinguishment (note 7)	635	-	(1,032)	-
Unrealized (gain) loss on warrant liability (note 7)	621	(394)	192	(705)
(Gain) loss on acquisition (note 3)	1,995	-	(9,903)	-
Gain on settlement of accounts payable	-	-	-	(138)
Transaction costs (note 3)	254	-	2,391	-
Loan structuring costs	-	615	-	1,629
	38,264	2,824	38,269	10,955
Loss before income taxes (note 13)	(22,642)	(795)	(57,734)	(3,160)
Deferred tax expense (recovery)	665	-	(3,301)	-
Net loss and comprehensive loss	(23,307)	(795)	(54,433)	(3,160)
Net loss per share (note 13)				
Basic	(0.05)	(0.00)	(0.16)	(0.01)
Diluted	(0.05)	(0.00)	(0.16)	(0.01)

See accompanying notes to the condensed interim financial statements

SATURN OIL & GAS INC.**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Unaudited)

(CAD \$000)	Number of Shares	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2019	234,574	33,027	8,027	-	(30,379)	10,675
Share based payments	-	-	485	-	-	485
Net loss for the period	-	-	-	-	(3,160)	(3,160)
Balance, September 30, 2020	234,574	33,027	8,512	-	(33,539)	8,000
Balance, December 31, 2020	234,574	33,027	8,716	-	(38,137)	3,606
Private placement (note 13)	268,333	32,200	-	-	-	32,200
Allocation to warrants (note 13)	-	(14,361)	-	14,361	-	-
Cash share issue costs (note 13)	-	(2,375)	-	-	-	(2,375)
Non-cash share issue costs (note 10, 13)	-	(3,022)	3,633	-	-	611
Share based payments	-	-	352	-	-	352
Net loss for the period	-	-	-	-	(54,433)	(54,433)
Balance, September 30, 2021	502,907	45,469	12,701	14,361	(92,570)	(20,039)

See accompanying notes to the condensed interim financial statements

SATURN OIL & GAS INC.
STATEMENT OF CASHFLOWS
(Unaudited)

(CAD \$000s)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
OPERATING ACTIVITIES				
Net loss for the period	(23,307)	(795)	(54,433)	(3,160)
Items not affecting cash:				
Depletion depreciation and amortization (note 5)	7,172	1,274	9,936	3,540
Deferred income tax expense	665	-	(3,301)	-
Share based payments (note 13)	333	174	293	484
Accretion on decommissioning liabilities (note 8)	1,463	9	1,864	26
Accretion on convertible and promissory notes (note 11, 12)	54	198	251	342
Accretion on lease liabilities (note 6)	146	-	192	-
Unrealized (gain) loss on derivative financial instruments (note 16)	20,908	456	66,806	(576)
Unrealized (gain) loss on warrant liability (note 7)	621	(394)	192	(705)
Unrealized foreign exchange (gain) loss	761	(573)	157	671
Amortization of deferred financing costs and discount (note 9)	1,561	-	2,007	-
(Gain) loss on acquisition (note 3)	1,995	-	(9,903)	-
(Gain) loss on warrant extinguishment (note 7)	635	-	(1,032)	-
Gain on accounts payable extinguishment	-	-	-	(138)
Loan structuring costs	-	632	-	1,629
Paid in kind interest (note 10)	573	-	3,100	-
Revaluation of promissory notes (note 11)	89	-	89	-
Broker compensation options (note 13)	-	-	611	-
Change in non-cash working capital (note 15)	2,491	(145)	(31,147)	(2,237)
Cash flow from (used in) operating activities	16,160	836	(14,318)	(124)
FINANCING ACTIVITIES				
Proceeds from senior term loan, net of discount (note 9)	-	-	84,064	-
Debt issue costs (note 9)	-	(120)	(4,081)	(124)
Proceeds from share issuance (note 13)	-	-	32,200	-
Share issue costs (note 13)	(334)	-	(2,375)	-
Lease payments (note 6)	(446)	(73)	(595)	(187)
Proceeds from revolving notes, net	-	-	-	990
Repayment of senior term loan (note 9)	(3,628)	-	(3,628)	-
Repayment of promissory note (note 11)	-	(127)	(48)	(255)
Change in non-cash working capital (note 15)	806	-	3,150	-
Cash flows from (used in) financing activities	(3,602)	(320)	108,687	424
INVESTING ACTIVITIES				
Property acquisitions (note 3)	(2,660)	-	(79,480)	-
Property, plant and equipment (note 5)	(4,445)	(212)	(4,647)	(421)
Exploration and evaluation	-	(193)	-	(633)
Change in non-cash working capital (note 15)	3,495	(13)	3,495	(13)
Cash flows from (used in) investing activities	(3,610)	(418)	(80,632)	(1,067)
Change in cash, during the period	8,948	98	13,737	(767)
Cash, beginning of period	5,358	245	569	1,110
Cash, end of period	14,306	343	14,306	343

See accompanying notes to the condensed interim financial statements

SATURN OIL & GAS INC.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2021 and 2020
(Unaudited)

1. NATURE OF OPERATIONS

Saturn Oil & Gas Inc. (“Saturn” or the “Company”) is a Canadian resource company engaged in the business of acquiring, exploration and development of petroleum and natural gas resource deposits in Canada. The Company’s current focus is to advance the exploration of its oil and gas properties in Southeast and West Central Saskatchewan. The common shares and certain warrants of the Company are listed on the TSX Venture Exchange (“TSXV”) and trade under the symbol “SOIL” and “SOIL.WT”.

The Company’s corporate headquarters are at 1000 – 207 9 Ave SW, Calgary, Alberta, T2P 1K3, and its registered office is located at 230 – 22 Street East Suite 800, Saskatoon, SK S7K 0E9.

2. BASIS OF PREPARATION

Statement of Compliance

These unaudited interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and in accordance with IAS 34 – Interim Financial Reporting. The unaudited interim condensed financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2020. These unaudited interim condensed financial statements have been prepared following the same accounting policies; except as noted below, as the Company’s audited financial statements for the year ended December 31, 2020.

These unaudited interim condensed financial statements were approved and authorized for issue by the Company’s Board of Directors on November 15, 2021.

Certain prior period amounts have been reclassified to conform to current presentation. See “Voluntary change in accounting policy” section.

Basis of measurement, functional and presentation currency

The unaudited interim condensed financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value through profit or loss.

The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

Significant judgments, estimates and accounting policies

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Significant judgments, estimates and assumptions made by management in these financial statements are outlined in note 2 of the December 31, 2020 annual financial statements. There have been no significant changes in the Company’s judgments, estimates and accounting policies; except as noted below, applied during the interim period ended September 30, 2021, relative to those described in the most recent annual financial statements as at and for the year ended December 31, 2020.

Since December 31, 2019, the outbreak of the COVID-19 pandemic has had a significantly negative impact on economic

conditions around the world. This has resulted in significant volatility of commodity prices as well as increased economic uncertainty. Estimates and judgments made by management in the preparation of the interim condensed financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Voluntary change in accounting policy

Under the Company's previous accounting policy for decommissioning obligations, the estimate of the expenditure required to settle the present obligation at the date of the statement of financial position was recorded on a discounted basis using the pre-tax risk-free interest rate and the future cash flow estimates were adjusted to reflect the risks specific to the liability. In the second quarter of 2021, the Company voluntarily changed its accounting policy to use a credit-adjusted risk-free discount rate and future cash flow estimates will not be adjusted to reflect the risks specific to the liability.

The Company believes the change in discount rate provides reliable and relevant information to the users of the financial statements as the discount rate is consistent with the Company's cost of capital. The change in policy must be applied retrospectively and resulted in property, plant and equipment at January 1, 2020 and December 31, 2020 each decreasing by \$2.8 million with a corresponding decrease to decommissioning obligation. Deferred income tax, depletion and accretion amounts related to prior periods were not adjusted as any changes were immaterial.

3. OXBOW ACQUISITION

On June 7, 2021 the Company completed an acquisition ("the Acquisition") of certain oil and gas properties located in Southeast Saskatchewan (the "Oxbow Assets"). The Acquisition was completed for total cash consideration of \$79.5 million, after interim adjustments, with \$2.4 million of transaction costs expensed on the statement of loss and comprehensive loss. The Acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on the acquisition date.

The determination of the purchase price, based on management's preliminary estimate of fair values, is as follows:

(000's)	Oxbow Acquisition
Property, plant and equipment	132,897
Decommissioning obligations	(40,213)
Deferred income tax liability	(3,301)
Net assets acquired	89,383
Cash consideration	79,480
Gain on acquisition	(9,903)

The above amounts are estimates, which were made by management at the time of preparation of these condensed interim financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized through the final statement of adjustments.

The fair value of property, plant and equipment has been derived with reference to an independent third-party prepared reserves evaluation for the acquired properties. The estimated proved and probable oil and natural gas reserve and related cash flows were discounted at a rate based on what a market participant would have paid as well as market metrics in the prevailing areas at the time. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 14.5%.

Oil and natural gas revenue of \$58.3 million and a net income of \$20.3 million are included in the statement of loss for the acquired assets since the closing date of June 7, 2021.

If the Acquisition had occurred on January 1, 2021, the incremental unaudited petroleum and natural gas sales and net income recognized for the period ended September 30, 2021 and the pro forma results would have been as follows:

(000's)	As stated	Acquisition prior to close date	(Unaudited) Pro Forma
Oil and natural gas sales	62,408	69,304	131,712
Net income (loss)	(54,433)	18,436	(35,997)

4. EXPLORATION AND EVALUATION

Exploration and evaluation (“E&E”) assets consist of the Company’s undeveloped land, geological and geophysical assets and exploratory drilling costs for projects in which technical feasibility or commercial viability has yet to be determined.

The following table reconciles the movements of the Company’s E&E assets for the periods:

(000’s)	September 30, 2021	December 31, 2020
Balance, beginning of period	4,485	4,115
Additions	-	1,077
Disposition on settlement of promissory note	-	(500)
Transfers (note 5)	-	(207)
Balance, end of period	4,485	4,485

5. PROPERTY, PLANT AND EQUIPMENT

Cost (Restated - note 2)	Oil and gas properties	Other assets	Total
As at December 31, 2019	47,288	256	47,544
Additions	-	51	51
Transfers (note 4)	207	-	207
As at December 31, 2020	47,495	307	47,802
Additions	4,571	144	4,715
Acquisition (note 3)	132,897	-	132,897
Right of use asset	3,561	-	3,561
As at September 30, 2021	188,524	451	188,975

Accumulated depletion, depreciation and amortization

As at December 31, 2019	9,164	125	9,289
Depletion, depreciation and amortization	4,442	81	4,523
As at December 31, 2020	13,606	206	13,812
Depletion, depreciation and amortization	9,774	162	9,936
As at September 30, 2021	23,380	368	23,748

Net book value

As at December 31, 2020	33,889	101	33,990
As at September 30, 2021	165,144	83	165,227

As at September 30, 2021, the calculation of depletion includes estimated future development costs relating to the development of proved plus probable reserves of \$339.0 million (December 31, 2020 - \$124.3 million). The Company capitalized \$0.2 million of general and administrative costs for the three and nine months ended September 30, 2021 (year ended December 31, 2020 – \$0.3 million) and capitalized \$0.1 million of stock-based compensation expense for the three and nine months ended September 30, 2021 (year ended December 31, 2020 – \$nil).

At September 30, 2021, there were no indicators of impairment or reversal of impairment identified. Accordingly, an impairment test was not performed.

6. LEASES

The following table reconciles the changes in the lease liability for the periods:

(000's)	September 30, 2021	December 31, 2020
Balance, beginning of period	610	758
Lease remeasurement	555	-
Additions	3,007	-
Lease payment	(595)	(202)
Interest expense	192	54
	3,769	610
Less: current portion	(871)	(175)
Balance, end of period	2,898	435

As at September 30, 2021, the estimated undiscounted cash flows required to settle the Company's lease liability was \$5.6 million (December 31, 2020 - \$0.7 million).

7. WARRANT LIABILITIES

(000's)	September 30, 2021	December 31, 2020
Balance, beginning of period	1,032	1,965
Change in fair value	192	(933)
Extinguishments (note 10)	(1,032)	-
Additions (note 10)	4,770	-
Balance, end of period	4,962	1,032

The Company issued 43,800,000 common share purchase warrants in connection with the Term Notes on June 7, 2021. These were determined to be derivatives and have been recognized as a liability as the warrant holder has a cashless exercise provision allowing them to receive the number of shares based on the Company share price at the exercise date. The warrants have been recognized as part of debt issue costs and corresponding amount has been included in warrant liability which was determined to have a fair value of \$4.8 million at inception using the Black-Scholes option pricing model. On September 30, 2021, the warrant liability was determined to have a fair value of \$5.0 million resulting in a \$0.2 million unrealized loss recognized in profit or loss for the nine months ended September 30, 2021. The following assumptions were used in the Black-Scholes option pricing model at inception and September 30, 2021: exercise prices of \$0.16; maturity dates of December 7, 2024; dividend yields of nil; risk-free interest rates of 0.7%; inception share price and volatility of \$0.17 and 95%; and September 30, 2021 share price and volatility of \$0.18 and 95%.

The Company cancelled 30,505,122 common share purchase warrants related to the Revolving Notes on June 7, 2021. These were determined to be derivatives and had been recognized as a liability as the warrant holder had a cashless exercise provision allowing them to receive the number of shares based on the Company share price at the exercise date. The warrants had been recognized as debt issue costs and a corresponding amount was included in warrant liability. As at December 31, 2020, the warrants had a fair value of \$1.0 million using a Black-Scholes option pricing model. Prior to cancellation, the warrants were determined to have a fair value of \$1.7 million resulting in a \$0.7 million unrealized loss recognized in profit or loss for the nine months ended September 30, 2021. Upon cancellation, the remaining fair value of \$1.7 million was recognized in profit or loss for the nine months ended September 30, 2021. The warrants were valued with the following assumptions: exercise price of \$0.235, share price of \$0.17, Expiry date of September 30, 2022, volatility of 94%, dividend yield of nil and risk-free interest rates of 0.4%.

8. DECOMMISSIONING OBLIGATIONS

The decommissioning obligation represents 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 \$217.3 million (December 31, 2020 - \$3.3 million) which has been discounted below using the credit adjusted risk-free rate of 14.5% with an estimated timeline to abandoned between 10 and 50 years.

In connection with the Oxbow Acquisition, the Company placed a \$21.0 million deposit with the Saskatchewan Ministry of Energy and Resources.

(000's) Restated- note 2	September 30, 2021	December 31, 2020
Balance, beginning of period	415	380
Acquired (note 3)	40,213	-
Additions	9	-
Accretion	1,864	35
Balance, end of period	42,501	415

9. SENIOR TERM LOAN

On June 7, 2021, the Company entered into a \$87 million senior secured term loan ("Senior Term Loan") secured by a first-priority lien to all its real and personal assets, property and undertaking. The Company is required to make monthly principal repayments as follows: August 31, 2021 to July 31, 2022 of \$3.6 million per month; August 31, 2022 to July 31, 2023 of \$2.2 million per month; and August 31, 2023 to June 7, 2024 of \$1.5 million per month. All principal repayments are subject to an exit fee of 2.5% of the aggregate principal amount of any such payment. The Senior Term Loan bears interest 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rates at a minimum rate of 1%. The Senior Term Loan has a stated maturity date of June 7, 2024.

(000's)	September 30, 2021	December 31, 2020
Senior Term Loan	87,000	-
Repayments	(3,628)	-
Unamortized deferred debt issue costs	(1,917)	-
Unamortized original issue discount	(2,936)	-
	78,519	-
Less: current portion	(41,062)	-
Balance, end of period	37,457	-

Covenants

The Senior Term Loan is subject to various covenants on the part of the Company including limitations on certain types of activities, restrictions or requirements with respect to additional debt, liquidity, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. As at September 30, 2021, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The following table summarizes the current key financial covenants as set forth in the credit agreement when the aggregate principal amount of the Senior Term Loan is greater than \$24.0 million:

Covenant description	Covenant Ratio	September 30, 2021
PDP Asset Coverage Ratio Minimum ⁽¹⁾	1.75	2.81
Current Ratio Minimum ⁽²⁾	1.00	1.52
First Lien Net Leverage Ratio Maximum ⁽³⁾	1.75	1.04

⁽¹⁾ The ratio of (a) the PV10 of Saturn's proved developed producing ("PDP") reserves, to (b) the Senior Term Loan, lease liabilities, Promissory notes, and Convertible notes net of cash.

⁽²⁾ The ratio of (a) current assets, to (b) current liabilities; excluding the current portion of the Senior Term Loan and unrealized gain (loss) on derivatives.

⁽³⁾ The ratio of (a) the Senior Term Notes, lease liabilities, Promissory Notes, and Convertible Notes net of cash, to (b) annualized earnings before interest, taxes, depreciation, amortization and other non-cash items ("EBITDA").

If the aggregate principal amount of the Senior Term Loan is less than \$24.0 million, the key financial covenants above are replaced with the following:

- Total leverage ratio, pursuant to which the ratio of consolidated net debt, excluding the Convertible Notes and the \$0.8 million Promissory Note, to EBITDA for the four quarters most recently ended cannot exceed 3.0 to 1.0;
- Asset coverage, as at the end of any fiscal quarter, pursuant to the adjusted PV10 to consolidated net debt, excluding the Convertible Notes and the \$0.8 million Promissory Note, to be less than 1.20 to 1.00.

10. TERM NOTES

(000's)	September 30, 2021	December 31, 2020
Term Notes ⁽¹⁾	28,401	-
Unamortized deferred debt issue costs	(4,929)	-
Revolving Notes	-	25,142
	23,472	25,142
Less: current portion	-	(25,142)
Balance, end of period	23,472	-

(1) Principal balance of the Term Notes at September 30, 2021 is US\$22.3 million converted to \$28.4 million at the September 30, 2021 exchange rate of 1.2741 (December 31, 2020 – Revolving Notes of US\$19.7 million converted to \$25.1 million at the December 31, 2020 exchange rate of 1.2732). Unamortized deferred debt issue costs are denominated in Canadian dollars.

On June 7, 2021, Saturn entered into a note purchase agreement to exchange \$19.7 million drawn on the US\$20 million secured reserve-based revolving note facility (“Revolving Notes”) plus accrued and unpaid interest of \$2.0 million and replace them with \$19.7 million in second priority senior secured cash/paid in kind term notes (“Cash/PIK Notes”) and \$2.0 million in 15% second-priority senior secured term PIK notes (“PIK Notes”) (collectively the “Term Notes”) due December 7, 2024. The Cash/PIK Notes bear interest at a combined rate of 15% and are payable at a rate of 7.5% in cash per annum and 7.5% payable in kind accruing monthly and payable upon maturity. The PIK Notes bear interest at 15% and are payable in kind accruing monthly and payable upon maturity.

Covenants

The Term Notes have various covenants on the part of the Company including limitations on certain types of activities, restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. The key financial covenants of the Term Notes are dependent on the balance and lien status of the Senior Term Loan. Prior to the discharge of the first lien obligation of the Senior Term Loan and if the balance of the Senior Term Loan is greater than \$24.0 million, the key financial covenants of the Senior Term Loan align. If the balance of the Senior Term Loan is less than \$24.0 million, the quarterly covenants are as follows:

Covenant description	Covenant Ratio
Total Leverage Ratio Maximum ⁽¹⁾	3.50
Asset Coverage Minimum ⁽²⁾	1.00

- (1) The ratio of (a) consolidated net debt, excluding the Convertible notes and \$0.8 million note payable, to (b) Consolidated EBITDA for the trailing four quarters.
- (2) The ratio of (a) “PV10” to (b) consolidated net debt, excluding the Convertible notes and \$0.8 million note payable. For the calculation, PV10 is defined as the discounted future net revenue from proved oil and gas properties using average strip pricing and adjusted to reflect specified assumptions and the full effect of hedging transactions of the Company, provided that not less than 70% of such discounted future net revenue shall be from PDP reserves.

After the discharge of the first lien obligation of the Senior Term Loan, the quarterly covenants are as follows:

Covenant description	Covenant Ratio
Total Leverage Ratio to EBITDAX Maximum ⁽¹⁾	3.50
Asset Coverage Minimum ⁽²⁾	1.35
Interest Coverage Minimum ⁽³⁾	2.25

- (1) The ratio of (a) Indebtedness at such time to (b) EBITDAX for the period of four fiscal quarters most recently ended. For the calculation, EBITDAX is defined as net income for such period plus 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 hedges for such period, losses attributable to extraordinary and non-recurring losses for such period; minus all non-cash items of income which were included in determining 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 dispositions assuming that such transactions had occurred on the first day of the applicable calculation.
- (2) The ratio of (a) PV10 (b) to consolidated net debt, excluding the Convertible notes and the \$0.8 million Promissory note.
- (3) The ratio of (a) EBITDAX for the four quarters most recently ended to (b) financing charges.

11. PROMISSORY NOTES

As at September 30, 2021 the Company has a note payable to a third party in the amount of \$1.0 million (December 31, 2020 - \$1.0 million) which bears interest at 8.2% with monthly instalments due in aggregate on March 22, 2022, and a note payable to a shareholder in the amount of \$0.8 million (December 31, 2020 - \$0.8 million) which bears an interest of 2% and is subordinated until July 2024.

(000's)	September 30, 2021	December 31, 2020
Balance, beginning of period	1,332	2,122
Repayment	(48)	(382)
Revaluation of promissory note	89	
Settlement of promissory note	-	(500)
Interest and accretion	133	92
	1,506	1,332
Less current portion	(736)	(479)
Balance, end of period	770	853

12. CONVERTIBLE NOTES

As at September 30, 2021, the Company has a \$1.0 million (December 31, 2020 - \$1.0 million) and a \$0.8 million (December 31, 2020 - \$0.8 million) convertible note payable due to a shareholder. Each note bears interest at 5% per annum and is subordinated until July 2024. The convertible note payable and unpaid interest is convertible into shares of the Company at the option of the holder at a conversion price of \$0.10 per share for the \$1.0 million convertible note and at \$0.15 per share for the \$0.8 million convertible note.

(000's)	September 30, 2021	December 31, 2020
Balance, beginning of period	2,038	1,889
Interest and accretion	118	149
Balance, end of period	2,156	2,038

13. SHARE CAPITAL

Authorized

Unlimited common shares without par value.

Issued and outstanding

(000s)	September 30, 2021		December 31, 2020	
	Shares	Amount	Shares	Amount
Balance, beginning of period	234,574	33,027	234,574	33,027
Common shares issued for cash proceeds	268,333	32,200	-	-
Allocation to warrants	-	(14,361)	-	-
Cash share issue costs	-	(2,375)	-	-
Non-cash share issue costs	-	(3,022)	-	-
Balance, end of period	502,907	45,469	234,574	33,027

Private Placements

On June 4, 2021, the Company completed a brokered and non-brokered private placement ("Private Placement") for gross proceeds of \$32.2 million comprised of the following:

- A non-brokered private placement of 153,333,333 units of the Company at a price of \$0.12 per unit for aggregate gross proceeds of \$18.4 million. Each unit consists of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to purchase one common share at a price of \$0.16 per common share for a period of two years from the issue date. As at September 30, 2021, the warrants are fully vested and exercisable

- A brokered private placement of 115,000,000 units of the Company at a price of \$0.12 per unit through a syndicate of dealers for aggregate gross proceeds of \$13.8 million. Each unit consists of one common share and one warrant of the Company. Each warrant entitles the holder to purchase one common share at a price of \$0.16 per common share for a period of two years from the issue date. As at September 30, 2021, the warrants are fully vested and exercisable
- In connection with the brokered and non-brokered private placements, the Company recorded \$5.4 million in share issue costs comprised of \$2.4 million in commission and fees and the fair value of \$3.0 million associated with 14,892,010 broker compensation options (“Broker Compensation Options”) issued to brokers and advisors.

Warrants

(000s, except per warrant price)	September 30, 2021		December 31, 2020	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Balance, beginning of period	30,505	0.24	63,589	0.21
Issued	268,333	0.16	-	-
Issued (note 7)	43,800	0.16	-	-
Cancelled (note 7)	(30,505)	0.24	-	-
Expired	-	-	(33,084)	0.18
Balance, end of period	312,133	0.16	30,505	0.24

The Company issued 268,333,333 warrants in connection to the Private Placement and were allocated a fair value of \$14.4 million. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of 24 months; volatility of 108%; risk-free interest rate of 0.5%; and a dividend yield of 0%.

As at September 30, 2021, the following share purchase warrants were issued and outstanding:

Expiry date (000s except per warrant price)	Outstanding warrants	Exercise price
June 4, 2023	268,333	0.16
December 7, 2024 (note 7)	43,800	0.16
	312,133	

Broker Compensation Options

In consideration for services rendered in relation to the Private Placement and the Oxbow Acquisition, the Company issued 17,829,010 Broker Compensation Options to certain agents, brokers and advisors. Each Broker Compensation Option is exercisable at a price of \$0.12 and entitles the holder to one common share of the Company and one warrant. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.16 for a period of two years from the issue date. As at September 30, 2021, the Broker Compensation Options are fully vested and exercisable.

The fair value of \$3.1 million associated with the 14,829,010 Broker Compensation Options in connection to the Private Placement was recorded as share issue costs. The fair value of \$0.6 million associated with the 3,000,000 Broker Compensation Options in connection to the Oxbow Acquisition was recognized as transaction costs. The fair value was measured using the Black-Scholes option pricing model with the following assumptions: expected life of 24 months; volatility of 108%; risk-free interest rate of 0.5%; and a dividend yield of 0%.

As at September 30, 2021, the following total Broker Compensation Options were issued and outstanding in relation both the Private Placement and the Oxbow Acquisition:

Expiry date (000s, except per option price)	Outstanding broker compensation options	Exercise Price
June 4, 2023	14,829	0.12
June 7, 2023	3,000	0.12
	19,046	

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, and employees enabling them to acquire common shares of the Company upon exercise. 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 for a maximum term of 5 years. The options granted vest either at 25% on the date of grant and 12.5% at the end of every quarter after the grant date, 10% on the date of grant and 7.5% at the end of every quarter after the grant date, or 1/3 on each of the first, second and third anniversary after the grant date. Vesting conditions are determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

(000s except per option price)	Outstanding options	Weighted average exercise price
Balance, December 31, 2019	32,275	0.13
Granted	4,875	0.10
Expired	(1,525)	0.20
Forfeited	(8,100)	0.11
Balance, December 31, 2020	27,525	0.13
Granted	16,000	0.13
Forfeited/cancelled	(2,725)	0.14
Expired	(550)	0.15
Balance, September 30, 2021	40,250	0.12

As at September 30, 2021, the following options were exercisable and outstanding:

(000s except per option price)	Stock options exercisable			Stock options outstanding		
	Number outstanding	Weighted average exercise price	Weighted average life remaining (years)	Number exercisable	Weighted average exercise price	Weighted average life remaining (years)
0.08 - \$0.10	11,263	0.09	1.4	12,450	0.09	1.6
0.11 - \$0.15	8,520	0.14	3.5	23,200	0.13	4.3
0.16 - \$0.20	4,600	0.19	1.8	4,600	0.19	1.8
	24,383	0.12	2.2	40,250	0.12	3.2

During the three and nine months ended September 30, 2021, the Company expensed \$0.3 million and \$0.2 million (2020 – expensed nil and \$0.3 million) related to stock-based compensation.

Per share amounts

Basic net loss per share is calculated using the weighted-average number of common shares outstanding during the reporting periods. Diluted net loss per share is calculated using the weighted-average number of common shares outstanding and considering the dilutive effect of all potentially dilutive securities, including common stock equivalents and convertible securities outstanding. Potentially dilutive securities primarily consists of stock options, broker compensation options, warrants, and convertible notes. Diluted net loss per share for the three and nine months ended September 30, 2021 and 2020 is equal to basic net loss per share because the effect of all potential dilutive securities outstanding during the periods, including stock options, broker warrant options, warrants, and convertible notes is anti-dilutive. The components of basic and diluted net loss per share were as follows:

(000s except per share amounts)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Weighted average shares outstanding				
Basic and diluted	502,907	234,574	348,591	234,574
Per share loss				
Basic and diluted	(0.05)	(0.00)	(0.16)	(0.01)

14. REVENUE

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Crude oil	46,248	2,126	59,851	5,718
Natural gas	578	-	685	-
NGLs	906	-	1,107	-
Petroleum and natural gas revenue	47,732	2,126	61,643	5,718
Processing and other income	765	-	765	-
Petroleum and natural gas sales	48,497	2,126	62,408	5,718

Included in accounts receivable as at September 30, 2021 is \$16.3 million (September 30, 2020 – \$0.7 million) of accrued petroleum and natural gas revenues related to September 2021 production.

15. SUPPLEMENTAL CASH FLOW INFORMATION

(\$000s)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Change in non-cash working capital:				
Accounts receivable	(4,511)	(604)	(16,443)	758
Prepaid and deposits	903	(315)	(26,880)	(243)
Accounts payable and accrued liabilities	10,400	599	18,821	(2,904)
	6,792	(320)	(24,502)	(2,389)
Related to:				
Operating activities	2,491	(145)	(31,147)	(2,237)
Financing activities	806	-	3,150	-
Investing activities	3,495	(13)	3,495	(13)
Total change in non-cash working capital	6,792	(158)	(24,502)	(2,250)

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 adjusts 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, 2021, the Company is subject to certain externally imposed capital requirements under covenants in the credit agreements associated with the Senior Term Loan and the Term Notes.

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the quarter ended September 30, 2021.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company actively manages its liquidity risk through strategies such as prudent capital spending, an active commodity risk management

program and by continuously monitoring forecast and actual cash flows from operating, financing and investing activities. Management believes it will have sufficient funding to meet foreseeable liquidity requirements. The Company has the following maturities of financial liabilities at September 30, 2021:

(\$CAD000)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	44,257	39,115	-	-	83,372
Term Notes ⁽¹⁾	-	38,086	-	-	38,086
Interest payments ⁽²⁾	9,486	7,594	-	-	17,080
Promissory notes	865	823	-	-	1,688
Convertible notes	-	2,329	-	-	2,329
Lease liabilities ⁽³⁾	1,401	1,944	816	1,333	5,494
Gas processing commitments	943	1,886	1,886	7,858	12,573
Accounts payable and accrued liabilities	24,960	-	-	-	24,960
	81,912	91,777	2,702	9,191	185,582

⁽¹⁾ Includes the US\$ 19.7 million Term Notes plus accrued PIK interest which are scheduled to mature on December 7, 2024 based on the September 30, 2021 US to Canadian dollar exchange rate of 1.2741.

⁽²⁾ Represents cash interest payments on scheduled payment dates related to the Senior Term Loan and Term Notes.

⁽³⁾ Represents the remaining undiscounted minimum lease payments on the company's lease liabilities.

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 arise principally from the Company's accounts receivable from oil and natural gas marketers and joint operators in the oil and gas industry. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production.

The Company's policy to mitigate credit risk going forward is to maintain marketing relationships with large, established and reputable purchasers that are considered to be creditworthy. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. Joint venture receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. The Company does not request letters of credit in its favor from joint venture partners; however the Company has the ability to withhold production from joint operating partners in the event of non-payment or is able to register security on the assets of joint operating partners.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to investment grade counterparties.

d) Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated Term Notes. A ten percent change in the US dollar would have resulted in a \$9.7 million change to net loss before tax (2020 – \$2.7 million) assuming all other variables remain constant. The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Senior Term Loan fluctuates with the interest rates associated with the periodic outstanding term based on Canadian dollar bankers' acceptance rates. The Company is exposed to interest rate risk related to the unpaid principal balance outstanding on the Senior Term Loan. A change in Canadian dollar bankers' acceptance rates by 1% would have

changed net loss by approximately \$0.2 million during the three months ended September 30, 2021 (2020 – \$0.2 million) assuming all other variables remain constant.

f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. Prices for oil are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

Financial derivative instruments

Saturn manages the risks associated with changes in commodity prices by entering into a variety of risk management commodity contracts classified as financial derivatives. The Company assesses the effects of movement in commodity prices on income before tax. A 10% increase or decrease in commodity prices would have resulted in a \$34.8 million change to unrealized gains (losses) on risk management contracts and net loss before tax assuming all other variables remain constant.

The Company had the following outstanding financial derivative commodity contracts as at September 30, 2021:

Commodity	Index	Type	Term	Daily volume (bbl/d)	Bought put price (US\$/bbl)	Sold call price (US\$/bbl)	Swap price (\$US/bbl)
WTI Crude Oil	NYMEX	Collar	Oct 1-21 to Jun 30-22	2,474	60.00	64.60	
WTI Crude Oil	NYMEX	Collar	Jul 1-22 to Dec 31-22	2,293	50.00	62.00	
WTI Crude Oil	NYMEX	Collar	Jan 1-23 to Dec 31-23	2,109	50.00	58.15	
WTI Crude Oil	NYMEX	Collar	Jan 1-24 to Dec 31-24	1,893	50.00	55.00	
WTI Crude Oil	NYMEX	Collar	Jan 1-25 to May 31-25	1,757	50.00	54.25	
WTI Crude Oil	NYMEX	Swap	Oct 1-21 to Dec 31-21	2,550			63.78
WTI Crude Oil	NYMEX	Swap	Jan 1-22 to Dec 31-22	2,364			58.85
WTI Crude Oil	NYMEX	Swap	Jan 1-23 to Dec 31-23	2,109			55.50
WTI Crude Oil	NYMEX	Swap	Jan 1-24 to Dec 31-24	1,893			53.51
WTI Crude Oil	NYMEX	Swap	Jan 1-25 to May 31-25	1,757			52.51
WTI MSW Differential ⁽¹⁾	NGX	Swap	Oct 1-21 to Dec 31-21	5,099			6.07
WTI MSW Differential ⁽¹⁾	NGX	Swap	Jan 1-22 to Mar 31-22	4,943			6.07
WTI MSW Differential ⁽¹⁾	NGX	Swap	Apr 1-22 to Jun 30-22	4,797			6.07
WTI MSW Differential ⁽¹⁾	NGX	Swap	Jul 1-22 to Sep 30-22	4,651			6.07
WTI MSW Differential ⁽¹⁾	NGX	Swap	Oct 1-22 to Dec 31-22	4,522			6.07

(1) Based on weighted average volumes for the period

Subsequent to September 30, 2021, the Company entered into the following financial derivative commodity contracts:

Commodity	Index	Type	Term	Daily volume (bbl/d)	Bought put price (US\$/bbl)	Sold call price (US\$/bbl)
WTI Crude Oil	NYMEX	Collar	Nov 1-21 to Oct 31-22	500	70.00	81.65

Financial derivative assets and liabilities are only offset if the Company has the legal right to offset and intends to settle on a net basis or settle the instrument simultaneously. The Company offsets financial instrument assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivative commodity contracts that are offset on the statements of financial position as at September 30, 2021:

(\$CAD000)	Gross financial derivative instruments	Amount offset	Net financial derivative instruments
Current asset	2,371	(2,371)	-
Long term asset	15,938	(15,938)	-
Current liability	(32,104)	2,371	(29,733)
Long term liability	(52,963)	15,938	(37,025)
Net liability position	(66,758)	-	(66,758)

g) Net Debt and Capital structure

Management considers net debt a key measure in assessing the company's liquidity. The Company's net debt and capital structure consists of the following.

(\$CAD000)	September 30, 2021	December 31, 2020
Cash	(14,306)	(569)
Accounts receivable	(17,182)	(739)
Prepays and deposits	(27,364)	(484)
Accounts payable	24,960	6,139
Senior Term Loan	78,519	-
Term Notes	23,472	-
Promissory notes	1,506	1,332
Convertible notes	2,156	2,038
Revolving Notes	-	25,142
Net debt	71,761	32,859
Shareholders' equity (deficit)	(20,039)	3,606
Total capitalization	51,722	36,465

The Company manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. The capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, modifying capital spending programs and disposing of assets, the availability of any such means being dependent upon market conditions.

h) 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 estimated fair value of cash and cash equivalents, prepaids and deposits, amounts receivable, and accounts payable and accrued liabilities is equal to their carrying values due to the short-term nature of these instruments.

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

The carrying value of the lease liabilities approximates the fair value due to known future payments.

The Senior Term Loan, Term Notes, convertible debentures and have fair values equal to their carrying value. The Company

estimates the fair value of promissory notes at September 30, 2021 by discounting future cash flows using level 2 inputs. The fair value was not materially different from the carrying value.

17. COMMITMENTS

The Company has the following contractual obligations and commitments as at September 30, 2021:

(\$CAD000)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	44,257	39,115	-	-	83,372
Term Notes ⁽¹⁾	-	38,086	-	-	38,086
Interest payments ⁽²⁾	9,486	7,594	-	-	17,080
Promissory Notes	865	823	-	-	1,688
Convertible Notes	-	2,329	-	-	2,329
Lease liabilities ⁽³⁾	1,401	1,944	816	1,333	5,494
Gas processing commitments	943	1,886	1,886	7,858	12,573
	56,952	91,777	2,702	9,191	160,622

(1) Includes the US\$ 19.7 million Term Notes plus accrued PIK interest which are scheduled to mature on December 7, 2024 based on the September 30, 2021 US to Canadian dollar exchange rate of 1.2741.

(2) Represents cash interest payments on scheduled payment dates related to the Senior Term Loan and Term Notes.

(3) Represents the remaining undiscounted minimum lease payments on the Company's lease liabilities.

18. SUBSEQUENT EVENTS

On October 7, 2021, the company completed a 20:1 share consolidation.