



Financial Statements of

SATURN OIL & GAS INC.

For the years ended December 31, 2020 and 2019

(in Canadian Dollars)



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Independent Auditor's Report

To the Shareholders of Saturn Oil and Gas Inc.

Opinion

We have audited the financial statements of Saturn Oil and Gas Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive earnings (loss) and comprehensive earnings (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Entity's current liabilities exceeded its current assets by \$30,536,431 and has an accumulated deficit of \$38,137,033. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the Management Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Justin Friesen, CPA, CA.

Chartered Professional Accountants

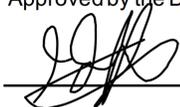
Calgary, Alberta
April 30, 2021

STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents		\$ 569,111	\$ 1,110,303
Accounts receivable	4	739,154	1,628,189
Derivative instruments	17	47,000	-
Current portion of deposits and prepayments		40,716	153,037
Marketable securities	5	3,200	3,680
Total current		1,399,181	2,895,209
Non-current			
Deposits and prepayments		440,135	213,888
Property, plant and equipment	6	36,760,363	41,024,493
Exploration and evaluation assets	7	4,484,993	4,115,466
Total non-current		41,685,491	45,353,847
Total assets		\$ 43,084,672	\$ 48,249,056
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	8	\$ 6,139,012	\$ 8,509,873
Derivative instruments - current	17	-	195,519
Promissory notes	9	479,157	333,930
Revolving notes - current	12	25,142,443	7,500,000
Lease liabilities	13	175,000	146,161
Total current		31,935,612	16,685,483
Non-current			
Promissory notes	9	853,087	1,788,120
Asset retirement obligation	10	3,184,792	3,150,298
Convertible notes	11,16	2,037,654	1,889,276
Revolving notes - non-current	12,16	-	11,483,287
Lease liabilities	13	435,011	611,540
Warrant liability	14	1,032,238	1,965,285
Total non-current		7,542,782	20,887,806
Total liabilities		39,478,394	37,573,289
SHAREHOLDERS' EQUITY			
Share capital	16	33,027,361	33,027,361
Equity reserves	16	8,603,560	7,914,880
Contributed capital on convertible debt		112,390	112,390
Deficit		(38,137,033)	(30,378,864)
Total shareholders' equity		3,606,278	10,675,767
Total liabilities and shareholders' equity		\$ 43,084,672	\$ 48,249,056

Nature and Continuance of Operations (Note 1)

Approved by the Board of Directors on April 30, 2020



Director



Director

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

STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

				For the year ended December 31	
REVENUE	Note	2020	2019		
Oil revenue		\$ 7,548,874	\$ 18,294,103		
Royalties		(387,126)	(803,119)		
Oil revenue, net of royalties		7,161,748	17,490,984		
Unrealized gain on derivative instruments	17	242,520	(195,519)		
Realized gain on derivative instruments	17	2,032,876	(274,973)		
		9,437,144	17,020,492		
EXPENSES					
Operating		1,882,252	3,007,482		
General and administrative	15	1,309,650	1,582,276		
Amortization and depletion		4,611,717	7,216,131		
Share based payments	15,16	688,680	770,084		
Interest on long-term debt		4,271,814	3,766,105		
		12,764,113	16,342,078		
Income (loss) before other income (expenses)		(3,326,969)	678,414		
Other (income) expenses					
Foreign exchange gain		(320,225)	(531,295)		
Gain on settlement of accounts payable	8	(138,245)	(4,968)		
Gain on modification of notes payable		-	(143,815)		
Loan structuring costs	12	5,822,237	1,663,220		
Loss on abandonment liability		-	63,365		
Write-off of exploration, evaluation and producing assets	7	-	213,394		
Unrealized loss on marketable securities	5	480	28,320		
Unrealized gain on warrant liability	14	(933,047)	(1,432,049)		
Income (loss) and comprehensive income (loss) for the year		\$ (7,758,169)	\$ 822,242		
Basic and diluted net income (loss) per share	16	\$ (0.03)	\$ 0.00		
Weighted average number of shares outstanding	16	234,573,715	233,245,789		

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

STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of Shares	Share Capital	Equity reserves	Convertible Debt	Deficit	Total
Balance as at December 31, 2018	227,963,015	\$ 31,781,840	\$ 7,290,415	\$ 224,780	\$ (31,201,106)	\$ 8,095,929
Share issuance costs	-	(8,800)	-	-	-	(8,800)
Shares issued, exercised warrants	210,700	31,209	-	-	-	31,209
Shares issued, exercised stock options	1,400,000	355,619	(145,619)	-	-	210,000
Shares issued, converted note	5,000,000	867,493	-	(112,390)	-	755,103
Share-based payments	-	-	770,084	-	-	770,084
Income for the period	-	-	-	-	822,242	822,242
Balance as at December 31, 2019	234,573,715	\$ 33,027,361	\$ 7,914,880	\$ 112,390	\$ (30,378,864)	\$ 10,675,767
Share-based payments	-	-	688,680	-	-	688,680
Loss for the period	-	-	-	-	(7,758,169)	(7,758,169)
Balance as at December 31, 2020	234,573,715	\$ 33,027,361	\$ 8,603,560	\$ 112,390	\$ (38,137,033)	\$ 3,606,278

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

STATEMENTS OF CASH FLOWS

For the year ended December 31

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the period	\$ (7,785,169)	\$ 822,242
Items not affecting cash:		
Unrealized loss (gain) on warrant liability	(933,047)	(1,432,049)
Amortization and depletion	4,522,818	7,216,131
Accretion on asset retirement obligation	34,494	28,187
Share-based payments	688,680	770,084
Write-off of exploration and evaluation and producing assets	-	213,394
Unrealized gain on derivative instruments	(242,519)	195,519
Unrealized foreign exchange on notes payable	217,821	(745,926)
Gain on settlement of accounts payable	(138,245)	(4,968)
Loss on note modification	-	(143,815)
Unrealized loss on marketable securities	480	28,320
Loan structuring cost	5,698,911	1,663,220
Accretion on lease liabilities	53,880	64,900
Accretion on promissory notes and convertible debt	240,491	205,388
Loss on abandonment liability	-	63,365
Changes in non-cash working capital items:		
Accounts receivable	889,034	(655,011)
Current portion of deposits and prepayments	112,321	(153,037)
Accounts payable and accrued liabilities	(2,509,106)	1,259,320
Reduction to asset retirement obligation	-	(210,865)
Net cash provided by operating activities	850,844	9,184,399
CASH FLOWS FROM FINANCING ACTIVITIES		
Share issuance costs	-	(8,800)
Proceeds from stock options exercised	-	210,000
Repayment of lease liabilities	(201,570)	(242,647)
Proceeds from warrants exercised	-	31,209
Proceeds (repayment) from promissory note	(351,551)	500,000
Proceeds from revolving note	3,006,995	23,848,242
Repayment of revolving note	(2,017,014)	(6,437,293)
Revolving note closing costs	(474,435)	(422,339)
Net cash (used in) provided by financing activities	(37,575)	17,478,372
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit	(226,246)	(7,010)
Additions to property, plant and equipment	(50,902)	(22,811,465)
Change in exploration and evaluation assets	(1,077,313)	(2,874,715)
Net cash used in investing activities	(1,354,461)	(25,693,190)
Change in cash	(541,192)	969,581
Cash, beginning of year	1,110,303	140,722
Cash, end of year	\$ 569,111	\$ 1,110,303

Supplementary Information (Note 18)

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

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. ("Saturn" or the "Company") was incorporated under the Laws of British Columbia on August 16, 2001. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company's current focus is to advance the exploration of its oil and gas properties in west-central Saskatchewan.

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

Going concern of operations

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at December 31, 2020, the Company had a net loss of \$7,758,169, working capital deficiency of \$30,536,431) and an accumulated deficit of \$38,137,033.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices, 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.

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

For the year ended December 31, 2020, COVID-19 had an impact on the global economy, including the oil and gas industry. Business conditions in 2020 reflected the market uncertainty associated with COVID-19. The Company's ability to fund the current level of operating costs in the face of an extended disruption may be affected and the Company may be required to adjust operating levels or obtain additional financing, which may be restricted. The Company has taken into account the impacts of COVID-19 and the unique circumstances it has created in making estimates, assumptions and judgements in the preparation of the financial statements and continues to monitor the developments in the business environment and commodity market. Actual results may differ from estimated amounts and those differences may be material.

2. BASIS OF PREPARATION AND MEASUREMENT

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements were approved by the Board of Directors on April 30, 2021.

Basis of presentation

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

Functional and presentation currency

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

Use of estimates

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

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

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

- a) The recoverability of accounts receivable which is included in the 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) Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include Black-Scholes option valuation model and forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, volatilities of commodity prices and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income.
- h) Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.
- i) Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing properties requires the use of estimates and judgments and is by its nature subject to measurement uncertainty.

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

Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim financial statements include, but are not limited to, the following:

- a) Going concern of operations; and
- b) Determination of classification, presentation and measurement of financial assets and liabilities.
- c) Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units ("CGUs") based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company's CGUs is subject to management's judgment.
- d) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based partially on proved and probable reserves.

IMPACT OF COVID-19

For the year ended December 31, 2020, COVID-19 had an impact on the global economy, including the oil and gas industry. Business conditions in 2020 reflected the market uncertainty associated with COVID-19. The Company has taken into account the impacts of COVID-19 and the unique circumstances it has created in making estimates, assumptions and judgements in the preparation of the financial statements and continues to monitor the developments in the business environment and commodity market. Actual results may differ from estimated amounts, and those differences may be material.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Joint Arrangements

Saturn conducts some of its oil and gas activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. Saturn does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, Saturn recognizes in the Financial Statements its share of assets, liabilities, revenues and expenses of the arrangements.

Revenue

The Company derives petroleum and natural gas sales revenue from the sale of petroleum and natural gas through three customers. The contracts with customers have an open-ended terms that may last one month to several years and may operate on an evergreen basis. Payment is due on the contract near the end of the month following the month in which the product was delivered.

Applying the five-step model required by IFRS 15, Revenue from Contracts with Customers, revenue is recognized as follows for these contracts:

STEP	PETROLEUM AND NATURAL GAS SALES
1. Identify the Contract	The contractual arrangement executed with the customers, specifying the quantity and market price.
2. Identify distinct performance obligations	Single performance obligation to provide crude oil and gas to the customers.
3. Estimate transaction price	Transaction price is based on current commodity market prices.
4. Allocate transaction price to performance obligations	Total revenue is allocated to the single performance obligation.
5. Recognize revenue as performance obligations are satisfied	Revenue to be recognized at a point in time once control passes to the customers (i.e. when product is delivered).

The Company does not have contracts with customers where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Property, plant and equipment

Property, plant and equipment (“PPE”) include the costs of development and production that are not evaluation and exploration (“E&E”) assets, and costs for office assets. PPE is recorded at cost less accumulated depletion and amortization and accumulated impairment losses, net of recovered impairment losses.

The Corporation does not hold any assets requiring a substantial period of time to get ready for intended use. Accordingly, to date, no borrowing costs have been capitalized.

Oil and development and production assets

Development and production assets are capitalized on an area-by-area basis and include all costs associated with the development and production of oil and gas reserves. These costs may include proved property acquisitions, development drilling (including unsuccessful or delineation wells), completion, gathering and infrastructure, decommissioning costs, amounts transferred from E&E assets and directly attributable internal costs.

Expenditures to renew or improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are expensed as incurred.

Any gains or losses from the divestiture of development and production assets are recognized in profit or loss. Accumulated costs are depleted on a straight-line basis over the estimated useful life of the wells. Costs subject to depletion include estimated future costs to be incurred in developing proved plus probable reserves and exclude residual amounts. Accumulated costs are depleted using the unit-of-production method based on estimated proved reserves. Costs subject to depletion include estimated future costs to be incurred in developing proved reserves and exclude residual amounts. Depletion is calculated based on individual components (i.e. fields or combinations thereof and other major components with different useful lives).

Other assets

Other capital assets are recorded at cost and are amortized using the declining balance method. On acquisitions during the year, amortization is calculated once the asset is put in use. Annual amortization rates are as follows:

Computer hardware	55%
Computer software	100%
Furniture and equipment	20%

Impairment of non-current assets

The carrying amounts of the Corporation's non-current assets are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized in earnings for the period to the extent that the carrying amount of the asset (or CGU) exceeds the recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset (or CGU) does not exceed the carrying amount that would have been determined, net of depletion and amortization, had no impairment loss been recognized for the asset (or CGU).

A reversal of an impairment loss is recognized immediately in profit or loss.

E&E assets are assessed for impairment when they are reclassified to property, plant and equipment, or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of the properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the year in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a property interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development and is classified as “transferred to producing assets.” Exploration and evaluation assets are also tested for impairment before assets are transferred to oil and gas production properties.

Decommissioning Liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of decommissioning liabilities includes restoration, reclamation and revegetation of the affected exploration sites.

Decommissioning liabilities generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining or oil and gas assets. Over time, the discounted liability is increased for changes in the present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and decommissioning liability in the period in which they occur.

Farm-in and farm out arrangements

The Corporation, as farmee, recognizes its expenditures under farm-in arrangements in respect of its own interest and that retained by the farmor, as and when the costs are incurred. The farmee accounts for its expenditures under a farm-in arrangement in the same way as directly incurred E&E expenditures.

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized on a graded basis over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment using the Black-Scholes option pricing model. Otherwise, share-based payments are measured at the fair value of goods and services received.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore its exploration and evaluation assets. These equity financing transactions may involve the issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants (“Warrants”). Depending on the terms and conditions of each equity financing agreement, the Warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are valued based on the residual value method. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded by providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes and the initial recognition of assets and liabilities that affect neither accounting nor taxable loss to the extent that they will

probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

Derivative financial instruments

Derivative financial instruments are used by the Company to manage its exposure to market risks relating to commodity prices. The Company's policy is not to use derivative financial instruments for speculative purposes. The estimate of fair value of all derivative instruments is based on quoted market prices, or in their absence, third party market indications and forecasts and includes an estimate of the credit quality of counterparties to the derivative instruments. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

The Company has not designated its financial derivative contracts as effective accounting hedges, and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are measured at fair value, with any gains and losses recorded in the statement of loss and comprehensive income.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the periods presented, this calculation proved to be anti-dilutive.

Comprehensive income

Comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources and comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as available for sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the statement of financial position.

Foreign Currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect to the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are not subsequently re-translated. Foreign currency differences arising on translation are recognized in profit or loss.

Financial instruments

All financial instruments are initially measured at fair value. Financial assets are subsequently measured at either amortized cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets, and the contractual cash flow characteristics of the financial assets. Financial assets are not reclassified subsequent to their initial recognition, except if the Company changes its business model for managing financial assets. The classification of financial liabilities depends on the purpose for which the financial liabilities were incurred and their characteristics.

Financial assets

The Company's financial assets measured at amortized cost are cash and cash equivalents and amounts receivable.

The Company's financial assets measured at fair value through profit and loss are marketable securities.

The Company has few customers and the ECL related to the customers is nil.

Financial liabilities

The Company initially recognizes accounts payable, promissory note revolving notes and convertible notes, at fair value and were subsequently measured at amortized cost.

The Company's derivative contracts are measured at fair value through profit and loss.

Impairment of financial assets

The Company recognizes allowances for losses on its financial assets measured at amortized costs based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of financial asset. To calculate the expected credit loss, Saturn applies the simplified approach applying a provision matrix whereby financial assets are grouped into categories based on counterparty characteristics and aging categories. The Company considers past experience and forward-looking information if such information is reasonable and supportable, available without undue costs and effort, and can have a significant impact on the lossestimate.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in profit and loss. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, Saturn derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated balance sheets.

Leases

Under IFRS 16, a single recognition and measurement model will apply for lessees which will require recognition of assets (the right to use the leased item) and liabilities for most leases. The only exceptions are short-term and low-value leases.

Contracts where the Company obtains the right to control the use of an identified asset in exchange for consideration are determined to contain a lease. At commencement, a right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the earlier of the asset useful life and the term of the lease. The corresponding lease liability is equal to the present value of the future lease payments. Interest expense is recognized on the lease obligations using the effective interest rate method. These payments are applied against the lease liability.

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying balance of the right-of-use assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company's borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management's assumptions of future market conditions and operational decisions.

GOVERNMENT GRANTS

The Company receives or is eligible for government grants, including those introduced in response to the impact of COVID-19. Government grants are recognized when there is a reasonable expectation that the conditions attached to the grants have been met, and that the grants will be received. Government grants primarily related to asset expenditures will be presented as a reduction to the capital cost of the asset the grant relates to. Government grants primarily related to income will be presented in the Statement of Earnings (Loss) as a reduction to the expense line item the grant relates to, in the period in which the expenditures are incurred, or the related income is earned. Government grants primarily related to decommissioning obligations will be presented as a reduction to the carrying value of the obligation once the grant is received.

Accounting Standards Issued but Not Yet Applied

In January 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively. The Company is assessing the impact of these amendments on its financial statements.

In May 2020, the IASB issued amendments to IAS 16 "Property, Plant and Equipment" to require proceeds received from selling items produced while the entity is preparing the asset for its intended use to be recognized in net earnings, rather than as a reduction in the cost of the asset. The amendments are effective January 1, 2022 with early adoption permitted. The Company is assessing the impact of these amendments on its financial statements.

In August 2020, the IASB issued Interest Rate Benchmark Reform (Phase 2) in response to the Financial Stability Board's mandated reforms to InterBank Offered Rates ("IBORs"), with financial regulators proposing that they be replaced by a number of new local currency denominated alternative benchmark rates. The amendments are effective for annual periods beginning on or after January 1, 2021 and are to be applied retrospectively, with early adoption permitted. The Company is assessing the impact of IBOR reform and the IASB amendments and does not expect that these amendments will have a significant impact on the Company's financial statements.

4. ACCOUNTS RECEIVABLE

	December 31, 2020	December 31, 2019
Accounts receivable	\$ 739,154	\$ 1,525,251
GST receivable	-	102,938
	\$ 739,154	\$ 1,628,189

5. MARKETABLE SECURITIES

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

6. PROPERTY, PLANT AND EQUIPMENT

	Producing assets	Right-of-use assets	Other assets	Total
Cost:				
Balance, December 31, 2018	\$ 26,997,987	\$ -	\$ 118,460	\$ 27,116,447
Additions	18,240,574	935,448	137,385	19,313,407
Transfer from E&E assets	2,092,872	-	-	2,092,872
Asset retirement obligation	1,790,739	-	-	1,790,739
Balance, December 31, 2019	49,122,172	935,448	255,845	50,313,465
Additions	-	-	50,902	50,902
Transfer from E&E assets	207,786	-	-	207,786
Asset retirement obligation	-	-	-	-
Balance, December 31, 2020	\$ 49,329,958	\$ 935,448	\$ 306,747	\$ 50,572,153
Accumulated amortization:				
Balance, December 31, 2018	\$ 2,047,251	\$ -	\$ 25,590	\$ 2,072,841
Depletion and Amortization expense	6,908,709	207,972	99,450	7,216,131
Balance, December 31, 2019	8,955,960	207,972	125,040	9,288,972
Depletion and Amortization expense	4,280,177	161,687	80,954	4,522,818
Balance, December 31, 2020	\$ 13,236,137	\$ 369,659	\$ 205,994	\$ 13,811,790
Net Book Value:				
Balance, December 31, 2019	\$ 40,166,212	\$ 727,476	\$ 130,805	\$ 41,024,493
Balance, December 31, 2020	\$ 36,093,821	\$ 565,789	\$ 100,753	\$ 36,760,363

As at December 31, 2020, an estimated \$124,250,000 (2019 - \$141,926,000) in future development costs associated with proved and probable undeveloped reserves were included in the calculated of depletion.

The Company's property, plant and equipment assets are grouped into one cash generating unit ("CGU") for impairment testing. As a result of the recent volatility in oil commodity prices, the Company reviewed its CGU for indicators of impairment and performed an impairment test based on the difference between the period end book value and the recoverable amount. The recoverable amount was determined using fair value less cost to sell based on discounted cash flows of proved plus probable reserves using forecast prices and a discount rate of 15%. Based on the impairment test performed, no impairment was required at December 31, 2020 or at December 31, 2019.

The following estimates were used in determining whether an impairment to the carrying values of the CGU existed:

2020 Price Deck:

Calendar Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Edmonton (\$Cdn/bbl)	55.30	60.14	63.75	67.33	69.11	70.88	72.06	73.23	74.99	77.31
WCS at Hardisty (\$Cdn/bbl)	44.22	47.88	50.61	53.32	54.66	56.00	56.89	57.78	59.11	60.87

Prices thereafter escalate at 2% per year.

2019 Price Deck:

Calendar Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Edmonton (\$Cdn/bbl)	71.08	73.64	76.86	78.99	81.12	83.23	85.86	87.44	89.03	90.64
WCS at Hardisty (\$Cdn/bbl)	55.74	58.14	61.16	63.17	65.16	67.15	69.62	71.10	72.59	74.10

Prices thereafter escalate at 2% per year.

7. EXPLORATION AND EVALUATION ASSETS

Although the Company has taken steps to verify title to mineral exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

	December 31, 2020	December 31, 2019
Beginning balance	\$ 4,115,466	\$ 3,547,016
Additions	1,077,313	2,874,715
Disposition on settlement of promissory note (note 9)	(500,000)	-
Transfer to producing assets	(207,786)	(2,092,872)
Write-off of exploration and evaluation assets	-	(213,393)
	\$ 4,484,993	\$ 4,115,466

During the year ended December 31, 2020, Saturn capitalized \$308,562 (2019 – \$511,958) of directly attributable general administrative expenses to E&E assets. During the year ended December 31, 2020, Saturn wrote off \$nil (2019 - \$213,394) of exploration and evaluation assets that the Company deemed uneconomic.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2020	December 31, 2019
Accounts payable	\$ 3,805,008	\$ 8,217,619
Accrued liabilities	718,340	-
Interest payable	1,615,664	292,254
	\$ 6,139,012	\$ 8,509,873

9. PROMISSORY NOTE

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

During the year ended December 31, 2019, the Company recognized a note payable to a third party in the amount of \$966,856 as a result of a settlement agreement, for financing fees relating to the Revolving Notes entered in September 2018. Assumptions used in determining the fair value of the note were a term ending in March 2022 and an interest rate of 8.2%. The note required monthly payments of \$42,417 during 2020.

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

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 2,122,050	\$ 762,370
Additions	-	1,466,856
Fair value adjustment on modification	-	(160,554)
Repayment	(381,919)	-
Settlement of promissory note	(500,000)	-
Interest and accretion	92,113	53,378
	1,332,244	2,122,050
Less: current portion	(479,157)	(333,930)
Balance, end of period	\$ 853,087	\$ 1,788,120

10. ASSET RETIREMENT OBLIGATION

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 3,150,298	\$ 1,478,872
Additions	-	1,790,739
Reclamation of wells	-	(147,500)
Accretion	34,494	28,187
Balance, end of year	\$ 3,184,792	\$ 3,150,298

The asset retirement obligation is costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be \$3,305,468 (2019 - \$3,305,468). These obligations have been discounted using a risk-free rate between 1.51% to 2.16% (2019 – 1.51% to 2.16%) and an inflation rate between 1.5% to 2.2% per year (2019 – 1.5% to 2.2%).

11. CONVERTIBLE NOTES

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

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

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

- b) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,500,000 from a shareholder and issued a convertible note payable, bearing interest at 5% per annum.

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder. During the year ended December 31, 2019, \$750,000 of the principal portion of the note was converted into common shares of the Company at a conversion price of \$0.15 per share.

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

	December 31, 2020	December 31, 2019
Balance, beginning of year	\$ 1,889,276	\$ 2,332,659
Converted to shares	-	(755,103)
Fair value adjustment on modification	-	16,739
Reclassification from accounts payable and accrued liabilities	-	142,971
Accretion and interest	148,378	152,010
Balance, end of period	\$ 2,037,654	\$ 1,889,276

12. REVOLVING NOTES

	December 31, 2020	December 31, 2019
Prudential Capital Energy Partners, L.P.	\$ 22,353,480	\$ 21,941,622
Prudential Capital Energy Partners Management Fund	2,788,963	2,737,576
Loan financing costs	-	(5,698,911)
Balance, end of period	25,142,443	18,983,287
Current	(25,142,443)	7,500,000
Non-current	\$ -	\$ 11,483,287

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, 2020, the Company has drawn US\$19.7 million (CDN\$25.1 million equivalent using the December 31, 2020 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 as at December 31, 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.

In 2018, the Company also issued 30,505,122 warrants related to the revolving notes. These were determined to be derivatives and have been recognized as a liability as the warrant holder has the option to exercise without providing cash and it receives the number of shares based on the Company share price at the exercise date. The warrants have been recognized as part of loan financing costs and corresponding amount has been included in warrant liability and was determined to have a fair value of \$5,147,334 at inception using the Black Scholes model and the assumptions noted below. At December 31, 2020, warrant liability was reduced by \$511,267 (2019 - \$1,432,049) 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 (2019 – \$0.19), terms of maturity date of September 15, 2022, volatility of 98% (2019 – 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, 2020 \$5,698,911 (2019 -\$1,663,220) in deferred loan financing costs related to the revolving notes have been expensed.

Covenants

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

- total leverage ratio, pursuant to which the ratio of adjusted indebtedness to earnings before interest, taxes, depreciation, and extraordinary items (“EBITDAX”) for the four quarters most recently ended cannot exceed 3.5 to 1.0;

For the calculation, EBITDAX is defined as for any period with respect to the Company 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 to financing charges to be less than 2.25 to 1.00;
- asset coverage, pursuant to the adjusted PV10 to indebtedness to be less than 1.35 to 1.00.

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

The Company was in breach of the total leverage ratio and the asset coverage ratio covenants at December 31, 2020 and as a result, the balance of the revolving notes has been classified to current.

13. LEASE LIABILITIES

The office lease is accounted for by recognizing a right-of-use asset and a lease liability at the inception of a lease. The right-of-use asset was initially measured at the amount of the lease liability adjusted for any prepayments. The lease liability was initially measured at the present value of the contractual payments due to the lessor over the lease term. The discount rate used to determine the present values is the incremental borrowing rate for the underlying assets, which at January 1, 2019 was 8%. No new leases were entered into during the year ended December 31, 2020.

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

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

Right-of-use asset – office lease	
Balance, January 1, 2019	\$ 935,448
Amortization	(207,972)
Balance, December 31, 2019	727,476
Amortization	(161,687)
Balance, December 31, 2020	\$ 565,789
Lease liability – office lease	
Balance, January 1, 2019	\$ 935,448
Lease payments	(242,647)
Interest expense	64,900
Balance, December 31, 2019	757,701
Lease payments	(201,570)
Interest expense	53,880
Balance December 31, 2020	\$ 610,011
Current	\$ 175,000
Long-term	\$ 435,011

As at December 31, 2020, the estimated undiscounted cash flows required to settle the Company's lease liability was \$714,583 (2019 - \$916,153).

14. WARRANT LIABILITY

	December 31, 2020	December 31, 2019
Beginning balance	\$ 1,965,285	\$ 3,397,334
Change in fair value (Note 12)	(933,047)	(1,432,049)
Warrant liabilities	\$ 1,032,238	\$ 1,965,285

15. RELATED PARTY TRANSACTIONS

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

	Years ended December 31,	
	2020	2019
Asset retirement obligation	\$ -	\$ 210,865
Exploration and evaluation assets	11,141	287,608
Consulting expense	-	17,330
Key management compensation	825,564	668,059
Legal fees	17,947	73,661
Rent expense recovery	(17,819)	(78,718)
Share based payments	559,635	62,239

16. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

During the year ended December 31, 2019, the Company

- a) Issued 210,700 shares on exercised warrants at a weighted average price of \$0.15 per warrant.
- b) Issued 1,400,000 shares on exercised stock options at a price of \$0.15 per option.
- c) Issued 5,000,000 shares on the conversion of a note payable at a price of \$0.15 per share.

The Company did not issue any common shares during the year ended December 31, 2020.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, December 31, 2018	64,461,650	\$ 0.21
Exercised	(210,700)	0.15
Expired	(661,875)	0.15
Balance, December 31, 2019	63,589,075	0.21
Expired	(28,500,621)	0.18
Balance, December 31, 2020	35,088,454	\$ 0.243

As at December 31, 2020, the following share purchase warrants were issued and outstanding:

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

Stock Options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 32,275,000 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest either as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date or to 10% on the date of grant and 7.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, December 31, 2018	24,275,000	0.11
Granted	10,200,000	0.15
Exercised	(1,400,000)	0.15
Forfeited/expired	(800,000)	0.20
Balance, December 31, 2019	32,275,000	0.13
Granted	4,875,000	0.10
Expired	(1,525,000)	0.20
Forfeited	(8,100,000)	0.11
Balance, December 31, 2020	27,525,000	\$ 0.125
Exercisable, December 31, 2020	20,243,750	\$ 0.125

As at December 31, 2020, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
January 29, 2021	500,000	\$ 0.15
April 18, 2022	5,000,000	\$ 0.08
August 28, 2022	3,850,000	\$ 0.09
February 21, 2023	1,000,000	\$ 0.16
September 17, 2023	4,100,000	\$ 0.20
May 24, 2024	500,000	\$ 0.14
August 19, 2024	2,000,000	\$ 0.12
October 15, 2024	2,700,000	\$ 0.15
October 30, 2024	3,000,000	\$ 0.15
April 15, 2025	500,000	\$ 0.10
June 6, 2025	3,875,000	\$ 0.10
November 13, 2025	500,000	\$ 0.10
	27,525,000	\$ 0.125

A total of 500,000 options expired in January 2021.

During the year ended December 31, 2020, the Company granted 4,875,000 (2019 – 10,200,000) stock options with an initial fair market value of \$433,050 (2018 - \$941,219 or \$0.0.8) (2019 - \$0. 14) per option. The Company expensed \$771,321 (2019 - \$770,084) during the year ended December 31, 2020. During the year ended, the Company recorded a reversal of stock-based compensation of \$82,641

related to options forfeit during the year. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2020</u>	<u>2019</u>
Risk-free interest rate	0.36%	1.54%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	100.25%	98.77%

Earnings (loss) Per Share

	Years ended December 31,	
	2020	2019
Net income (loss) for the period	\$ (7,758,169)	\$ 822,242
Weighted average number of common shares basic and diluted	234,573,715	233,245,789
Basic and diluted net income (loss) per share	\$ (0.03)	\$ 0.00

In calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2020, all equity-settleable share-based instruments are excluded from the diluted weighted average shares calculation (December 31, 2019 – nil).

17. FINANCIAL INSTRUMENTS

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

a) Capital management

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise.

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at December 31, 2020, the Company is subject to certain externally imposed capital requirements under covenants in certain debt agreements.

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year ended December 31, 2020.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2020, the Company had \$569,111 (December 31, 2019 - \$1,110,303) in cash and cash equivalents and \$6,793,169 (December 31, 2019 - \$16,685,483) in current liabilities. The Company is exposed to liquidity risk.

The Company manages its risk of shortage of funds by monitoring the maturity dates of existing accounts payable and accrued liabilities in conjunction with its daily cash position.

The following are the expected maturities of its financial liabilities as at December 31, 2020:

	<1 Year	1-2 Years	>2 Years
Accounts payable and accrued liabilities	\$ 6,139,012	\$ -	\$ -
Promissory notes	479,157	853,087	-
Convertible notes	-	2,037,654	-
Revolving notes	25,142,443	-	-
Lease liabilities	175,000	435,011	-

c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and natural gas marketers and a concentration in the oil and gas industry. The risk is mitigated by only dealing with credit worthy companies.

d) Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated revolving notes. A 10% strengthening or weakening of the US dollar will contribute a \$2.5 million increase or decrease to the Company's net loss before tax (2019 – \$2.5 million). The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Revolving Notes fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Notes. A change in prime interest rates by 1% would have changed net loss by approximately \$294,000 in 2020 (2019 – \$172,500) 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.

In 2019, Saturn entered into a derivative instrument to manage its exposure to price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following table lists the fair value of all derivative contracts by commodity type in place at December 31, 2020.

	Crude Oil
Derivative instruments	\$ 47,000

The commodity contracts in place as at December 31, 2020 are as follows:

January 1, 2020 – January 31, 2021	CAD\$ WTI	400 barrels per day	\$65.40/\$75.40
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The following shows the breakdown of realized and unrealized losses recognized for the year ended December 31, 2020.

	Crude Oil
Realized gain on derivative instruments	\$ 2,032,876
Unrealized gain on derivative instruments	\$ 242,520

g) Fair value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The fair value of cash, marketable securities and investments are measured based on level 1 inputs of the fair value hierarchy. The fair value of derivatives instruments and warranty liabilities are measured based on level 2 inputs of the fair hierarchy.

The estimated fair value of due from and to related parties, accounts payable, and promissory note is equal to their carrying values due to the short-term nature of these instruments.

Financial Instruments	Classification	Carrying Value (\$)	Fair Value (\$)
Cash and cash equivalents	Amortized cost	\$ 569,111	\$ 569,111
Amounts receivable	Amortized cost	739,154	739,154
Marketable securities	FVTPL	3,200	3,200
Derivative instruments	FVTPL	47,000	47,000
Accounts payable and accrued liabilities	Amortized cost	6,139,012	6,139,012
Promissory notes	Amortized cost	1,332,244	1,332,244
Convertible debentures	Amortized cost	2,037,654	2,037,654
Revolving notes	Amortized cost	25,142,443	25,143,443
Lease liabilities	Amortized cost	610,011	610,011
Warrant liability	FVTPL	1,032,238	1,032,238

The estimated fair value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities, and promissory note is equal to their carrying values due to the short-term nature of these instruments. The convertible debentures and revolving notes have fair values equal to their carrying values as the risk profile associated with these financial instruments has remained unchanged since their inception.

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2020, the Company settled a \$500,000 promissory note in exchange for undeveloped land (Note 9 and Note 7).

The Company's significant non-cash transactions during the year ended December 31, 2019 were as follows:

- Included in property, plant, and equipment and exploration and evaluation assets is \$5,052,792 which relates to accounts payable and accrued liabilities.
- Shares issued on the conversion of notes payable of \$750,000.

- c) Asset retirement obligation included in property, plant and equipment of \$1,790,739.
- d) Right-of-use asset included in property, plant and equipment of \$935,448.
- e) Settlement of claims against the Company included in promissory notes of \$966,866.

The Company paid no income tax for the years presented. During the year ended December 31, 2020 the company paid \$2,948,404 (2019 - \$3,577,988) of interest expense.

19. CONTINGENCIES AND COMMITMENTS

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

20. INCOME TAXES

- a) The statutory tax rate for the year ended December 31, 2020 is 26.8% (December 31, 2019 – 26.5%).

	2020	2019
Income (loss) for the year before income taxes	\$ (7,758,169)	\$ 822,242
Expected income tax (recovery) based on statutory rate	(2,082,601)	222,000
Adjustment to expected income tax:		
Permanent differences	184,869	(225,000)
Share issue costs	(202,334)	(2,000)
Adjustment to prior years provisions versus statutory tax returns	-	(225,000)
Other	981,173	(12,000)
Change in unrecognized deductible temporary differences	1,118,891	242,000
Income tax provision (recovery)	\$ -	\$ -

- b) Significant components of the Company's deferred tax assets and liabilities are as follows:

	2020	2019
Deferred tax assets (liabilities)		
Property and equipment and exploration and evaluation assets	\$ 1,647,000	\$ 785,000
Financing costs	331,000	674,000
Asset retirement obligation	855,000	851,000
Debt with accretion	357,000	38,000
Revolving loan facility	-	(1,538,000)
Unrealized loss on foreign exchange	-	1,025,000
Warrant liability	277,000	531,000
Lease liability	117,000	205,000
Other	-	8,000
Non-capital losses available for future period	1,834,000	1,325,000
	\$ 5,418,000	\$ 3,904,000
Unrecognized deferred tax assets	(5,418,000)	(3,904,000)
Net deferred tax assets	\$ -	\$ -

c) Significant components of the Company's deductible taxable temporary differences are as follows:

	2020		2019	
Temporary differences				
Property and equipment and exploration and evaluation assets	\$1,647,000	No expiry	\$ 785,000	No expiry
Financing costs	331,000	2019 to 2023	674,000	2020 to 2023
Asset retirement obligation	855,000	No expiry	851,000	No expiry
Debt with accretion	357,000	No expiry	38,000	No expiry
Unrealized loss on foreign exchange	-	No expiry	1,025,000	No expiry
Warrant liability	273,000	No expiry	531,000	No expiry
Lease liability	47,000	No expiry	205,000	No expiry
Other	-	No expiry	18,000	No expiry
Non-capital losses available for future period	1,837,000	2026 to 2037	1,325,000	2026 to 2037

Tax attributes are subject to review, and potential adjustment, by tax authorities.

21. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada in one business segment, being the acquisition, exploration and production of resource properties.

22. GOVERNMENT GRANTS

The Government of Canada passed the Canada Emergency Wage Subsidy ("CEWS") and the Canada Emergency Rent Subsidy ("CERS") as part of its COVID19 Economic Response Plan. CEWS allows eligible companies to receive a subsidy of up to 75 percent of employee wages, subject to a maximum. CERS provides for eligible companies to receive a rent subsidy of up to 65% of eligible expenses. For the year ended December 31, 2020, the Company had reductions to general and administrative expenses of \$155,395 related to CEWS and CERS.