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

As at (CAD $000s)	**June 30, 2021**	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	**5,359**	569
Accounts receivable	**12,671**	739
Prepaid expenses and deposits	**7,246**	44
Derivative financial instruments	**2,925**	47
Total current assets	**28,201**	1,399
Deposit (note 8)	**21,021**	440
Property, plant and equipment (note 5)	**167,796**	33,990
Exploration and evaluation assets (note 4)	**4,485**	4,485
Derivative financial instruments (note 15)	**14,853**	-
Total assets	**236,356**	40,314
LIABILITIES		
Accounts payable and accrued liabilities	**14,560**	6,139
Senior term loan (note 11)	**36,018**	-
Promissory notes (note 9)	**-**	479
Revolving notes (note 12)	**-**	25,142
Lease liabilities (note 6)	**874**	175
Derivative financial instruments (note 15)	**22,300**	-
Total current liabilities	**73,752**	31,935
Senior term loan (note 11)	**44,878**	-
Term notes (note 12)	**21,826**	-
Promissory notes (note 9)	**1,404**	853
Asset retirement obligation (note 8)	**41,029**	415
Convertible notes (note 10)	**2,115**	2,038
Lease liabilities (note 6)	**3,108**	435
Warrant liability (note 7)	**3,705**	1,032
Derivative financial instruments (note 15)	**41,330**	-
Total liabilities	**233,147**	36,708
SHAREHOLDERS’ EQUITY		
Share capital (note 13)	**45,804**	33,027
Contributed surplus (note 13)	**12,309**	8,716
Warrants (note 13)	**14,361**	-
Deficit	**(69,265)**	(38,137)
Total shareholders’ equity	**3,209**	3,606
Total liabilities and shareholders’ equity	**236,356**	40,314

See accompanying notes to the condensed interim financial statements

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

(CAD $000s, except per share amounts)	**Three months ended June 30, 2021**	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
REVENUE				
Petroleum and natural gas sales	**12,589**	426	**13,911**	3,591
Royalties	**(1,640)**	(7)	**(1,698)**	(126)
	10,949	419	**12,213**	3,465
Realized gain (loss) on derivatives (note 15)	**(1,402)**	982	**(1,402)**	1,270
Unrealized gain (loss) on derivatives (note 15)	**(45,851)**	(2,252)	**(45,898)**	1,032
	(36,304)	(851)	**(35,087)**	5,767
EXPENSES				
Operating	**4,173**	208	**4,570**	875
Transportation	**327**	-	**327**	-
General and administrative	**926**	210	**1,359**	558
Depletion depreciation and amortization (note 5)	**2,185**	523	**2,764**	2,266
Share based payments (note 13)	**62**	138	**(40)**	310
Financing	**2,667**	1,090	**3,784**	2,134
Foreign exchange (gain) loss	**(915)**	(957)	**(900)**	1,421
Gain on warrant extinguishment (note 7)	**(1,667)**	(138)	**(1,667)**	(138)
Unrealized gain on warrant liability (note 7)	**(738)**	581	**(429)**	(311)
Gain on acquisition (note 3)	**(11,898)**	-	**(11,898)**	-
Transaction costs (note 3)	**2,137**	-	**2,137**	-
Loan structuring costs	**-**	517	**-**	1,017
	(2,741)	2,172	**7**	8,132
Loss before income taxes (note 13)	**(33,563)**	(3,023)	**(35,094)**	(2,365)
Deferred tax recovery	**(3,966)**	-	**(3,966)**	-
Net loss and comprehensive loss	**(29,597)**	(3,023)	**(31,128)**	(2,365)
Net loss per share (note 13)				
Basic	**(0.10)**	(0.01)	**(0.13)**	(0.01)
Diluted	**(0.10)**	(0.01)	**(0.13)**	(0.01)

See accompanying notes to the condensed interim financial statements

SATURN OIL AND 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	8,028	-	(30,379)	10,676
Share based payments	-	-	310	-	-	310
Net loss for the period	-	-	-	-	(2,365)	(2,365)
Balance, June 30, 2020	234,574	33,027	8,338	-	(32,744)	8,621
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)	**-**	**(2,040)**	**-**	**-**	**-**	**(2,040)**
Non-cash share issue costs (note 12, 13)	**-**	**(3,022)**	**3,633**	**-**	**-**	**611**
Share based payments	**-**	**-**	**(40)**	**-**	**-**	**(40)**
Net loss for the period	**-**	**-**	**-**	**-**	**(31,128)**	**(31,128)**
Balance, June 30, 2021	**502,907**	**45,804**	**12,309**	**14,361**	**(69,265)**	**3,209**

See accompanying notes to the condensed interim financial statements

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

(CAD $000s)	**Three months ended June 30, 2021**	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
OPERATING ACTIVITIES				
Net loss for the period	**(29,597)**	(3,023)	**(31,128)**	(2,365)
Items not affecting cash:				
Depletion depreciation and amortization (note 5)	**2,205**	523	**2,764**	2,266
Deferred income tax expense	**(3,966)**	-	**(3,966)**	-
Share based payments (note 13)	**62**	138	**(40)**	310
Accretion on decommissioning liabilities (note 8)	**391**	9	**401**	17
Accretion on convertible debt	**58**	96	**197**	144
Accretion on Lease Liabilities (note 6)	**35**	(15)	**47**	-
Unrealized loss (gain) on derivative financial instruments (note 16)	**45,851**	2,252	**45,898**	(1,032)
(Gain) loss on warrant liability (note 7)	**(738)**	581	**(429)**	(311)
Unrealized foreign exchange (gain) loss	**(618)**	(1,452)	**(603)**	1,242
Amortization of deferred financing costs and original issue discount (note 11)	**446**	-	**446**	-
Gain on acquisition (note 3)	**(11,898)**	-	**(11,898)**	-
Gain on warrant extinguishment (note 7)	**(1,667)**	-	**(1,667)**	-
Gain on accounts payable extinguishment	**-**	(139)	**-**	(140)
Loan structuring costs	**-**	501	**-**	1,001
Paid in kind interest	**2,527**	-	**2,527**	-
Broker compensation options (note 13)	**611**	-	**611**	-
Change in non-cash working capital (note 14)	**(33,967)**	(425)	**(33,638)**	(2,093)
Cash flow used in operating activities	**(30,265)**	(954)	**(30,478)**	(961)
FINANCING ACTIVITIES				
Proceeds from senior term loan, net of original issue discount (note 11)	**84,064**	-	**84,064**	-
Debt issue costs (note 11)	**(4,082)**	-	**(4,082)**	(4)
Proceeds from share issuance (note 13)	**32,200**	-	**32,200**	-
Share issue costs (note 13)	**(2,040)**	-	**(2,040)**	-
Lease payments (note 6)	**(105)**	(44)	**(149)**	(114)
Proceeds from revolving notes, net	**-**	-	**-**	990
Repayment of promissory note	**-**	(127)	**-**	(127)
Cash flows from financing activities	**110,037**	(171)	**109,945**	745
INVESTING ACTIVITIES				
Property acquisition (note 3)	**(76,820)**	-	**(76,820)**	-
Property, plant and equipment (note 5)	**(201)**	-	**(201)**	(209)
Exploration and evaluation (note 4)	**-**	(107)	**-**	(440)
Changes in non-cash working capital (note 14)	**2,344**	-	**2,344**	-
Cash flows used in investing activities	**(74,677)**	(107)	**(74,677)**	(649)
Change in cash, during the period	**5,095**	(1,232)	**4,790**	(865)
Cash, beginning of period	**264**	1,477	**569**	1,110
Cash, end of period	**5,359**	245	**5,359**	245

See accompanying notes to the condensed interim financial statements

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 August 26, 2021.

Certain prior period amounts have been reclassified to conform to current presentation.

Basis of measurement, functional and presentation currency

The 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 June 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 and equipment at December 31, 2020 decreasing by $2.8 million with a corresponding decrease to decommissioning obligations $2.8 million. 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 $76.8 million, after closing adjustments, with $2.1 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)	**June 7, 2021**
Property, plant and equipment	132,897
Asset retirement obligations	(40,213)
Deferred income tax liability	(3,966)
Net assets acquired	88,718
Cash consideration	76,820
Gain on acquisition	(11,898)

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 $11.0 million and a net income of $4.2 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 June 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	13,911	70,106	84,017
Net income (loss)	(31,128)	20,998	(10,130)

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)	June 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	**57**	**144**	**201**
Acquisition (note 3)	**132,897**	**-**	**132,897**
Right of use asset	**3,472**	**-**	**3,472**
As at June 30, 2021	**183,921**	**451**	**184,372**
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	**2,649**	**115**	**2,764**
As at June 30, 2021	**16,255**	**321**	**16,576**
Net book value			
As at December 31, 2020	**33,889**	**101**	**33,990**
As at June 30, 2021	**167,666**	**130**	**167,796**

As at June 30, 2021, the calculation of depletion includes estimated future development costs relating to the development of proved plus probable reserves of $343.1 million (December 31, 2020 - $124.3 million). The Company capitalized $0.1 million of general and administrative costs for the three and six months ended June 30, 2021 (year ended December 31, 2020 – $0.3 million) and did not capitalize any stock-based compensation expense for the six months ended June 30, 2021 (year ended December 31, 2020 – $nil).

At June 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)	**June 30, 2021**	December 31, 2020
Balance, beginning of period	**610**	758
Lease remeasurement	**467**	-
Additions	**3,007**	-
Lease payment	**(149)**	(202)
Interest expense	**47**	54
Balance, end of period	**3,982**	610
Current lease liabilities	**874**	175
Long-term lease liabilities	**3,108**	435
Balance, end of period	**3,982**	610

As at June 30, 2021, the estimated undiscounted cash flows required to settle the Company's lease liability was $5.9 million (2020 - $0.7 million).

7. WARRANT LIABILITIES

(000's)	**June 30, 2021**	December 31, 2020
Balance, beginning of period	**1,032**	1,965
Change in fair value	**(429)**	(933)
Extinguishments (note 12)	**(1,667)**	-
Additions (note 12)	**4,769**	-
Balance, end of period	**3,705**	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 June 30, 2021, the warrant liability was determined to have a fair value of $3.7 million resulting in a $1.1 million unrealized gain recognized in profit or loss for the six months ended June 30, 2021. The following assumptions were used in the Black-Scholes option pricing model at inception and June 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 June 30, 2021 share price and volatility of $0.14 and 96%.

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 cancelation, 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 six months ended June 30, 2021. Upon cancellation, the remaining fair value of $1.7 million was recognized in profit or loss for the six months ended June 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 asset retirement 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 $217.2 million (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*	**June 30, 2021**	December 31, 2020
Balance, beginning of period	**415**	380
Acquired (note 3)	**40,213**	-
Accretion	**401**	35
Balance, end of period	**41,029**	415

9. PROMISSORY NOTES

As at June 30, 2021 the Company has a note payable to a third party in the amount of $1.0 million. 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 thousand during 2021; however, by mutual agreement, payments were suspended during February 2021.

As at June 30, 2021 the Company has a note payable to a shareholder in the amount of $0.8 million. 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 all payment to September 2022.

(000's)	**June 30, 2021**	December 31, 2020
Balance, beginning of period	**1,332**	2,122
Repayment	**(48)**	(382)
Settlement of promissory note	**-**	(500)
Interest and accretion	**120**	92
	1,404	1,332
Less current portion	**-**	(479)
Balance, end of period	**1,404**	853

10. CONVERTIBLE NOTES

As at June 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 with a maturity date of September 2022. 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)	**June 30, 2021**	December 31, 2020
Balance, beginning of period	**2,038**	1,889
Interest and accretion	**77**	149
Balance, end of period	**2,115**	2,038

11. SENIOR TERM LOAN

On June 7, 2021, the Company entered into a new $87 million senior secured term loan ("Senior Term Loan") with a private arm's length third party. The Senior Term Loan is secured by a first-priority lien to all its real and personal assets, property and undertaking. Effective June 7, 2021 and commencing August 31, 2021, the Company is required to make monthly mandatory principal repayments as follows: August 31, 2021 to July 31, 2022 of 4.17% per month; August 31, 2022 to July 31, 2023 of 2.50% per month; and August 31, 2023 to June 7, 2024 of 1.67% per month. All principal repayments are subject to an exit fee of 2.5% of the aggregate principal amount of any such payment. Borrowings on 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)	**June 30, 2021**	December 31, 2020
Senior Term Loan	**87,000**	-
Unamortized deferred debt issue costs	**(3,168)**	-
Unamortized original issue discount	**(2,936)**	-
	80,896	-
Less: current portion	**(36,018)**	-
Balance, end of period	**44,878**	-

Covenants

The Senior Term Loan is subject to various covenants on the part of the Company including limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liquidity, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. As at June 30, 2021, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The first key financial covenant test period is scheduled for September 30, 2021. 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**
PDP Asset Coverage Ratio Minimum	1.75
Current Ratio Minimum	1.00
First Lien Net Leverage Ratio Maximum	1.75

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

(2) Means 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) Means 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 and amortization ("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.

12. TERM NOTES

(000's)	**June 30, 2021**	December 31, 2020
Term Notes	**27,064**	-
Unamortized deferred debt issue costs	**(5,238)**	-
Revolving Notes	**-**	25,142
	21,826	25,142
Less: current portion	**-**	(25,142)
Balance, end of period	**21,826**	-

On June 7, 2021, Saturn entered into a note purchase agreement with Prudential Capital Energy Partners, LP and Prudential Capital Energy Partners Management Fund ("Prudential"), 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/PIK 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 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 key financial covenants of the Term Notes are dependent on the balance and lien status of the Senior Term Notes. Prior to the discharge of the first lien obligation of the Senior Term Notes 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 Notes is less than $24.0 million the covenants are as follows:

- 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 3.5 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 1.35 to 1.00.

  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 Notes, the 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 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.

- 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 1.35 to 1.00.

- 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;

13. SHARE CAPITAL

Authorized

Unlimited common shares without par value.

Issued and outstanding

		June 30, 2021		December 31, 2020
(000s)	**Shares**	**Amount**	Shares	Amount
Balance, beginning of period	**234,574**	**33,027**	234,574	31,027
Common shares issued for cash proceeds	**268,333**	**32,200**	-	-
Allocation to warrants	**-**	**(14,361)**	-	-
Cash share issue costs	**-**	**(2,040)**	-	-
Non-cash share issue costs	**-**	**(3,022)**	-	-
Balance, end of period	**502,907**	**45,804**	234,574	33,027

Private Placements

On June 4, 2021, the Company completed a brokered and non-brokered private placement ("Private Placement") for aggregate 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 June 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 June 30, 2021, the warrants are fully vested and exercisable

- In connection with the brokered and non-brokered private placements, the Company recorded $5.1 million in share issue costs comprised of $2.0 million in commission and fees and the fair value of $3.1 million associated with 14,892,010 broker compensation options ("Broker Compensation Options") issued to brokers and advisors.

Warrants

		June 30, 2021		December 31, 2020
		Weighted average		Weighted average
(000s, except per warrant price)	**Warrants**	**exercise price**	Warrants	exercise price
Balance, beginning of period	**35,088**	**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	**-**	**-**	(28,501)	0.18
Balance, end of period	**316,716**	**0.16**	35,088	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 recognized as share issue costs and 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 June 30, 2021, the following share purchase warrants were issued and outstanding:

Expiry date (000s except per warrant price)	**Outstanding warrants**	**Exercise price**
November 16, 2022	4,583	0.30
June 4, 2023	268,333	0.16
December 7, 2024 (note 7)	43,800	0.16
	316,716	

Broker Compensation Options

($000s, except per option price)	**June 30, 20201 Broker Compensation Options**	**June 30, 2021 Weighted average exercise price**	December 31, 2020 Broker Compensation Options	December 31, 2020 Weighted average exercise price
Balance, beginning of period	**1,217**	**0.24**	1,217	0.24
Issued	**17,829**	**0.12**	-	-
Balance, end of period	**19,046**	**0.13**	1,217	0.24

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 June 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 June 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**
November 16, 2022	1,217	0.24
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 executive officers and directors, employees and consultants 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 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 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
Expired	**(500)**	**0.20**
Forfeited	**(2,250)**	**0.11**
Balance, June 30, 2021	**24,775**	**0.13**
Exercisable, June 30, 2021	**20,243**	**0.13**

As at June 30, 2021, the following options were issued and outstanding:

(000s except per option price)	Outstanding options	Exercise price
April 18, 2022	5,000	0.08
August 28, 2022	3,850	0.09
February 21, 2023	1,000	0.16
September 17, 2023	3,600	0.20
May 24, 2024	500	0.14
August 19, 2024	2,000	0.12
October 15, 2024	2,700	0.15
October 20, 2024	2,250	0.15
April 15, 2025	500	0.10
June 6, 2025	2,875	0.10
November 13, 2025	500	0.10
	24,775	0.13

During the three and six months ended June 30, 2021, the Company expensed $0.1 million (2020 – expensed $0.1 million) and recovered $0.1 million (2020 – expensed $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 six months ended June 30, 2021 and 2020 is equal to basic net loss per share because the effect of all potential common stock 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 June 30, 2021**	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
Weighted average shares outstanding				
Basic and diluted	**305,343**	233,246	**276,569**	233,246
Per share loss				
Basic and diluted	**(0.10)**	(0.01)	**(0.11)**	(0.01)

14. SUPPLEMENTAL CASH FLOW INFORMATION

($000s)	**Three months ended June 30, 2021**	Three months ended June 30, 2020	**Six months ended June 30, 2021**	Six months ended June 30, 2020
Change in non-cash working capital				
Accounts receivable	**(12,286)**	277	**(11,932)**	1,362
Prepaid and deposits	**(27,820)**	161	**(27,783)**	72
Accounts payable and accrued liabilities	**8,483**	(863)	**8,421**	(3,503)
	(31,623)	(425)	**(31,294)**	(2,069)
Related to:				
Operating activities	**(33,967)**	(425)	**(33,638)**	(2,093)
Investing activities	**2,344**	-	**2,344**	-
Total change in non-cash working capital	**(31,623)**	(425)	**(31,294)**	(2,093)

15. 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 June 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 June 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 June 30, 2021:

($CAD000)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	39,907	45,710	1,383	-	87,000
Term Notes (1)	-	42,069	-	-	42,069
Interest payments (2)	11,464	9,236	16	-	20,716
Promissory Notes	509	823	-	-	1,332
Convertible Notes	-	2,329	-	-	2,329
Lease liabilities (3)	1,352	2,082	935	1,422	5,791
Gas processing commitments	943	1,886	1,886	8,093	12,808
Accounts payable and accrued liabilities	14,560	-	-	-	14,560
	68,735	104,135	4,220	9,515	186,605

(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 June 30, 2021 US to Canadian dollar exchange rate of 1.239.

(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 majority of the oil and natural gas sales and associated accounts receivable outstanding at June 30, 2021 is related to production from the Company's acquired Oxbow Asset (note 3). The revenue receivable between close date of June 7, 2021 and June 30, 2021 is contractually obligated to be paid by the seller of the acquired asset to Saturn by September 9, 2021 per the terms of the purchase and sale agreement entered into in connection with the Acquisition.

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 $3.4 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 $0.1 million during the three months ended June 30, 2021 (2020 – $0.1 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 $38.2 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 June 30, 2021:

Commodity	Index	Type	Term	Daily volume	Bought put price (US$/bbl)	Sold call price (US$/bbl)	Swap price ($US/bbl)
WTI Crude Oil	NYMEX	Collar	Jul 1-21 to Jun 30-22	2,511	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	Jul 1-21 to Dec 31-21	2,585			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	Jul 1-21 to Sep 30-21	5,243			6.07
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

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)	**June 30, 2021**	December 31, 2020
Cash	(5,359)	(569)
Accounts receivable	(12,671)	(739)
Prepaids and deposits	(28,267)	(484)
Accounts payable	14,560	6,139
Senior Term Loan	80,896	-
Term Notes	21,826	-
Promissory Notes	1,404	1,332
Convertible Notes	2,115	2,038
Revolving Loan	-	25,142
Net debt	74,504	32,859
Shareholders' equity	3,209	3,606
Total capitalization	77,713	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 June 30, 2021 by discounting future cash flows using level 2 inputs. The fair value was not materially different from the carrying value.

16. COMMITMENTS

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

($CAD000)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	39,907	45,710	1,383	-	87,000
Term Notes [(1)]	-	42,069	-	-	42,069
Interest payments [(2)]	11,464	9,236	16	-	20,716
Promissory Notes	509	823	-	-	1,332
Convertible Notes	-	2,329	-	-	2,329
Lease liabilities [(3)]	1,352	2,082	935	1,422	5,791
Gas processing commitments	943	1,886	1,886	8,093	12,808
	54,175	104,135	4,220	9,515	172,045

(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 June 30, 2021 US to Canadian dollar exchange rate of 1.239.

(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.