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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Saturn Oil & Gas Inc.

Opinion

We have audited the consolidated financial statements of Saturn Oil & Gas Inc. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2021
- the consolidated statement of loss and comprehensive loss for the year then ended
- the consolidated statement of changes in shareholders' equity (deficit) for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' 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.

Emphasis of Matter – Comparative Information

We draw attention to Note 2 to the financial statements ("Note 2"), which explains that certain comparative information presented:

- for the year ended December 31, 2020 has been restated.
- as at January 1, 2020 has been derived from the financial statements for the year ended December 31, 2019 which have been restated (not presented herein).

Note 2 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter - Comparative Information

The financial statements for the year ended December 31, 2020 and December 31, 2019 (not presented herein but from which the comparative information as at January 1, 2020 has been derived), excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those financial statements on April 30, 2021.

As part of our audit of the financial statements for the year ended December 31, 2021, we also audited the adjustments that were applied to restate certain comparative information presented:

- for the year ended December 31, 2020
- as at January 1, 2020

In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review or apply any procedures to the financial statements:

- for the year ended December 31, 2020
- for the year ended December 31, 2019 (not presented herein)
- as at January 1, 2020.

Accordingly, we do not express an opinion or any other form of assurance on those financial statements taken as a whole.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will 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 and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' 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 the auditors' 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 the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

Auditors' 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 auditors' 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 the 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 auditors' 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 auditors' 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.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 auditors' report is Timothy Arthur Richards.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 28, 2022

SATURN OIL & GAS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (CAD $000s)	**December 31, 2021**	*(Restated, note 2)* December 31, 2020	*(Restated, note 2)* January 1, 2020
ASSETS			
Cash	**2,415**	569	1,110
Accounts receivable	**20,039**	739	1,628
Deposits and prepaid expenses	**6,461**	44	157
Financial derivatives (note 21)	**-**	47	-
Total current assets	**28,915**	1,399	2,895
Exploration and evaluation assets (note 6)	**4,485**	4,485	4,115
Property, plant and equipment (note 7)	**162,909**	33,425	37,527
Right-of-use assets (note 8)	**3,776**	565	727
Deposit (note 11)	**21,021**	440	214
Total assets	**221,106**	40,314	45,478
LIABILITIES			
Accounts payable	**28,850**	5,147	8,510
Senior term loan (note 12)	**33,582**	-	-
Promissory note (note 14)	**-**	479	334
Revolving notes (note 13)	**-**	26,134	7,500
Lease liabilities (note 9)	**933**	175	146
Financial derivatives (note 21)	**31,719**	-	196
Total current liabilities	**95,084**	31,935	16,686
Senior term loan (note 12)	**31,473**	-	-
Term notes (note 13, 24)	**24,104**	-	-
Revolving notes (note 13)	**-**	-	11,483
Promissory note (note 14)	**784**	853	1,788
Convertible notes (note 15)	**2,197**	2,038	1,889
Decommissioning obligations (note 11)	**47,296**	415	380
Lease liabilities (note 9)	**2,814**	435	612
Warrant liability (note 10)	**4,856**	1,032	1,965
Financial derivatives (note 21)	**42,804**	-	-
Total liabilities	**251,412**	36,708	34,803
SHAREHOLDERS' EQUITY			
Share capital (note 16)	**45,609**	33,027	33,027
Contributed surplus (note 16)	**12,922**	8,716	8,027
Warrants (note 16)	**14,361**	-	-
Deficit	**(103,198)**	(38,137)	(30,379)
Total shareholders' equity (deficit)	**(30,306)**	3,606	10,675
Total liabilities and shareholders' equity	**221,106**	40,314	45,478

Commitments (note 22)
Subsequent events (note 24)

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board of Directors:

(signed) *"Glenn Hamilton"*
Glenn Hamilton
Director

(signed) *"Calvin Payne"*
Calvin Payne
Director

SATURN OIL & GAS INC.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

	For the year ended December 31,	
($000s, except per share amounts)	**2021**	2020
REVENUE		
Petroleum and natural gas sales (note 18)	**116,214**	7,549
Royalties	**(18,050)**	(387)
	98,164	7,162
Realized gain (loss) on derivatives (note 21)	**(16,038)**	2,033
Unrealized gain (loss) on derivatives (note 21)	**(74,570)**	243
Other income (note 11)	**256**	-
	7,812	9,438
EXPENSES		
Operating	**42,392**	1,882
Transportation	**1,107**	-
General and administrative	**3,802**	1,310
Depletion depreciation and amortization (note 7,8)	**16,226**	4,523
Share based payments (note 16)	**452**	689
Financing (note 19)	**17,977**	10,182
Foreign exchange gain	**(220)**	(319)
Gain on debt extinguishment (note 10)	**(1,032)**	(138)
Unrealized (gain) loss on warrant liability (note 10)	**87**	(933)
Gain on acquisition (note 5)	**(7,790)**	-
Transaction costs (note 5)	**2,469**	-
	75,470	17,196
Loss before income taxes	**(67,658)**	(7,758)
Deferred income tax recovery (note 17)	**(2,597)**	-
Net loss and comprehensive loss	**(65,061)**	(7,758)
Net loss per share (note 16)		
Basic	**(3.36)**	(0.60)
Diluted	**(3.36)**	(0.60)

See accompanying notes to the consolidated financial statements

SATURN OIL & GAS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($000s)	Number of Shares	Share Capital	Contributed Surplus	Warrants	Deficit	Total
Balance, December 31, 2019	11,728	33,027	8,027	-	(30,379)	10,675
Share based payments	-	-	689	-	-	689
Net loss for the year	-	-	-	-	(7,758)	(7,758)
Balance, December 31, 2020	11,728	33,027	8,716	-	(38,137)	3,606
Balance, December 31, 2020	11,728	33,027	8,716	-	(38,137)	3,606
Private placement (note 16)	13,417	32,200	-	-	-	32,200
Allocation to warrants (note 16)	-	(14,361)	-	14,361	-	-
Cash share issue costs (note 16)	-	(2,325)	-	-	-	(2,325)
Non-cash share issue costs (note 13, 16)	-	(3,022)	3,633	-	-	611
Share based payments	-	-	613	-	-	613
Option exercise	20	90	(40)			50
Net loss for the year	-	-	-	-	(65,061)	(65,061)
Balance, December 31, 2021	**25,165**	**45,609**	**12,922**	**14,361**	**(103,198)**	**(30,306)**

See accompanying notes to the consolidated financial statements

SATURN OIL & GAS INC.

CONSOLIDATED STATEMENTS OF CASHFLOWS

	For the year ended December 31,	
($000s)	**2021**	2020
OPERATING ACTIVITIES		
Net loss for the year	**(65,061)**	(7,758)
Items not affecting cash:		
Depletion, depreciation and amortization (note 7,8)	**16,226**	4,523
Deferred income tax recovery (note 17)	**(2,597)**	-
Share based payments (note 16)	**452**	689
Unrealized (gain) loss on financial derivatives (note 21)	**74,570**	(243)
Unrealized (gain) loss on warrant liability (note 10)	**87**	(933)
Unrealized foreign exchange (gain) loss	**21**	191
Gain on acquisition (note 5)	**(7,790)**	-
Gain on debt extinguishment (note 10)	**(1,032)**	(138)
Non-cash financing expenses (note 19)	**10,259**	7,019
Non-cash transaction costs (note 16)	**611**	-
Other income (note 11)	**(256)**	-
Decommissioning expenditures (note 11)	**(53)**	-
Change in non-cash working capital (note 20)	**(26,722)**	(2,499)
Cash flow from (used in) operating activities	**(1,285)**	851
FINANCING ACTIVITIES		
Proceeds from senior term loan, net of discount (note 12)	**84,064**	-
Debt issue costs (note 12)	**(4,105)**	(474)
Repayment of senior term loan (note 12)	**(18,140)**	-
Proceeds from share issuance (note 16)	**32,200**	-
Share issue costs (note 16)	**(2,325)**	-
Lease payments (note 9)	**(964)**	(202)
Repayment of promissory note (note 14)	**(784)**	(352)
Proceeds from stock option exercise	**50**	-
Proceeds from revolving notes, net	**-**	990
Change in non-cash working capital (note 20)	**991**	-
Cash flows from (used in) financing activities	**90,987**	(38)
INVESTING ACTIVITIES		
Property acquisition (note 5)	**(82,297)**	-
Property, plant and equipment (note 7)	**(8,694)**	(51)
Exploration and evaluation (note 6)	**-**	(1,077)
Change in non-cash working capital (note 20)	**3,135**	(226)
Cash flows used in investing activities	**(87,856)**	(1,354)
Change in cash, during the year	**1,846**	(541)
Cash, beginning of year	**569**	1,110
Cash, end of year	**2,415**	569

Cash interest paid (note 19)

See accompanying notes to the consolidated 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", "SOIL.WT" and "SOIL.WT.A".

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

a) Statement of compliance

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board as at and for the year ended December 31, 2021, including 2020 comparative periods.

These consolidated financial statements were approved by the Board of Directors on April 25, 2022.

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

b) Basis of measurement

The consolidated 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.

c) Functional and presentation currency

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

d) Use of estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting year.

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

Impact of COVID-19
In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The outbreak and subsequent measures enforced to limit the spread of the pandemic contributed to volatility in financial markets. The outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the audited annual financial statements, particularly related to recoverable amounts. The Company will continue to update its significant judgments, estimates and assumptions for COVID-19 and the emergence of new COVID-19 variants as the impacts, if any, on commodity prices and equity markets unfold.

Regulations on carbon emissions and climate change
The following provides certain disclosures as to the impact of carbon emissions and climate change on the amounts recorded in the consolidated financial statements as at and for the year ended December 31, 2021. The below is not a comprehensive list or analysis of all climate change impacts and risks.

Emissions, carbon and other regulations impacting climate and climate related matters are constantly evolving. With respect to environmental, social and governance ("ESG") and climate reporting, the International Sustainability Standards Board has issued an IFRS Sustainability Disclosure Standard with the aim to develop sustainability disclosure standards that are globally consistent, comparable and reliable. In addition, the Canadian Securities Administrators have issued a proposed national instrument 51-107 Disclosure of Climate-Related Matters. The cost to comply with these standards, and others that may be developed or evolve over time, has not yet been quantified by the Company.

The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment as a possible indication of impairment of its oil and gas properties. The Company completed the analysis of triggers for impairment as at December 31, 2021 and climate risk/climate change, in of itself, did not result in the Company completing an impairment test. The Company has considered the impact of the evolving worldwide demand for energy and global advancement of alternative sources of energy that are not sourced from fossil fuels in its assessment of depletion on its oil and gas properties. Depletion of the Company’s oil and gas properties was based on proved and probable reserves, the life of which is generally less than 20 years. The ultimate period in which global energy markets can transition from carbon-based sources to alternative energy is highly uncertain, however, the majority of the Company’s proved and probable reserves per the 2021 reserve report should be realized prior to the elimination of carbon-based energy.

The Company engages a third-party external reserve engineer to prepare the reserve report. The reserve report includes anticipated impacts from emissions related taxes and carbon pricing. Most notably, the reserve report includes the estimated carbon charge related to the Company’s operations based on current rates.

The evolving energy transition and general sentiment to the oil and gas industry may result in reduced access to capital markets. Management will continue to adjust the capital structure to the dynamic environment. The Company’s financial results for 2021 were not directly impacted from a climate event. In 2021, the Company did not incur material weather-related damages to its property, plant and equipment. During 2021, management is not aware of a material disruption in its supply chain or the marketers of the Company’s product related to climate events.

Business combinations
Transactions are assessed against the criteria in IFRS 3 *Business Combinations* (“IFRS 3”) to assess whether they constitute a business combination or an asset acquisition. Business combinations are accounted for using the acquisition method of accounting. The determination of fair value often requires management to make assumptions and estimates about future events. The fair value of property, plant and equipment (“PP&E”), decommissioning obligations, and exploration and evaluation (“E&E”) assets acquired generally require the most judgement. This includes estimates of acquired reserves, forecast commodity prices, and discount rates. Changes in the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the allocation of the purchase price between assets and liabilities recorded on the statement of financial position and revenue and expenses recorded on the statement of comprehensive income (loss).

Decommissioning obligations
In most circumstances, the retirement and remediation of the Company’s assets occurs many years into the future. The amounts recorded for these decommissioning obligations and the related accretion expense require the use of estimates with respect to the amount and timing of the related cashflows, future environmental and regulatory legislation, as well as the credit-adjusted risk free rate applied.

Cash generating units
Petroleum and natural gas properties are aggregated into cash-generating units (“CGUs”) classified as the smallest identifiable, independent group of assets that generate future cash flows. The determination of these CGUs is based on management’s judgment regarding shared infrastructure, geographical proximity, commodity type, similar exposure to market risk and materiality.

Reserves
The process of estimating reserves is complex and requires significant judgment. Estimation of reserves is based upon several variables and assumptions such as geological and geophysical interpretation, production forecasts, commodity prices, costs and related cash flows. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Estimates of reserves impact the assessment of whether a new well has found economically recoverable reserves, depletion rates and the estimated recoverable amount of petroleum and natural gas properties used in impairment assessments, all of which could have a material impact on profit or loss.

Future cash flows
Estimates of future net cash flows used in the calculation of the estimated recoverable amount per CGU are based on reserve evaluation reports prepared by independent petroleum consultants. Discounted future cash flows are based on forecast benchmark commodity prices and costs over the expected economic life of the reserves and discounted using market-based rates to reflect a market participant's view of the risks associated with the assets.

Depletion, depreciation and amortization
Estimated depletion, depreciation and amortization ("DD&A") costs are based on estimated recoverable petroleum and natural gas reserves and the future development costs required to develop and produce those reserves.

Impairment
The impairment calculation is based on significant assumptions of proved plus probable oil and natural gas reserves, production rates, benchmark commodity prices, future costs, discount rates and other relevant assumptions. By their nature, these significant assumptions are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

Financial derivative instruments
Estimates of the fair value of the Company's derivative financial instruments ("Financial derivatives") is dependent on projected forward prices and the volatility in those prices.

Income taxes
Income tax, goods and services tax, provincial sales tax, and other tax returns filed with the various provincial and federal taxation authorities are subject to tax interpretations. These tax positions are subject to measurement uncertainty.

Lease obligations
Lease obligations are estimated using the rate implicit in the lease where determinable. In all other circumstances, a discount rate equal to the Company's incremental borrowing rate is used. This rate represents the rate that the Company 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.

Stock options, warrants and restricted share units
The determination of the fair value of stock options, warrants or restricted share units ("RSU's") and the related recognition of share-based payments requires that management make assumptions, including the expected price volatility. Changes in assumptions could affect the fair value estimate; existing models do not provide a single measure of the fair value of the Company's stock options and warrants.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and any reference to the Company throughout these consolidated financial statements refers to the Company and its subsidiaries. All intercompany balances, transactions, revenue and expenses are eliminated on consolidation. The consolidated accounts are prepared using uniform accounting policies.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when Saturn is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Joint arrangements

Saturn conducts some of its petroleum and natural 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.

Financial Instruments

Financial instruments are initially recognized at fair value on the statements of financial position. Measurement in subsequent periods depends on the classification of the financial asset or liability as amortized cost, fair value through other comprehensive income or fair value through profit or loss ("FVTPL").

Financial instruments classified as FVTPL are measured at their fair values at each reporting period with the change in fair value recognized in profit or loss. Cash, deposits and prepaid expenses, accounts receivable, accounts payable, Senior Term Loan and the Term Notes are measured at amortized cost. The financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's financial derivative contracts are classified as FVTPL and are recognized at fair value based on quoted market prices at each reporting date. The Company does not apply hedge accounting to its derivative instruments.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced and/or substantially modified, the difference in the respective carrying amounts is recognized in net loss and comprehensive loss.

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset.

Exploration and evaluation assets

Petroleum and natural gas exploration and evaluation "E&E" expenditures are accounted for in accordance with IFRS 6, Exploration for and Evaluation of Mineral Resources. Costs associated with the exploration for and evaluation of petroleum and natural gas reserves are accumulated on an area-by-area basis and capitalized as E&E assets when incurred. Pre-exploration costs are expensed in the period in which they are incurred.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and transferred to PP&E. When an area is deemed to no longer have commercially viable prospects to the

Company, exploration and evaluation expenditures related to that project are deemed to be impaired. Exploration and evaluation expenditure costs, in excess of estimated recoveries, are then recognized in profit or loss.

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.

Property, plant and equipment
Property, plant and equipment, which include petroleum and natural gas development and production assets are recorded at cost less accumulated depletion, depreciation, amortization and accumulated impairment losses, net of recovered impairment losses. These assets include all costs associated with the development and production of oil and gas reserves. Costs may include proved property acquisitions, development drilling, completion, gathering and infrastructure, geological and geophysical, 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 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 on a CGU basis.

Other capital assets are comprised of furniture and fixtures, computer equipment and leasehold improvements and are recorded at cost less accumulated depreciation.

Depletion, depreciation and amortization
The net carrying value of the development and production assets is depleted using the unit-of-production method based on period production relative to the estimated proved plus probable petroleum and natural gas reserves, taking into account the future development costs required to produce the reserves.

Proved plus probable petroleum and natural gas reserves are determined by independent petroleum consultants in accordance with Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations are dealt with on a prospective basis.

Other capital assets are depreciated using a declining balance method using rates from 20-100% depending on the asset classification.

Impairment
The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the 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 from proved plus probable oil reserves 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 profit or loss for the period to the extent that the carrying amount of the CGU or asset 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 CGU or asset does not exceed the carrying amount that would have been determined, net of depletion and amortization, had no impairment loss been recognized for the CGU or asset.

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.

Financial derivatives

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 commodity 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 profit or loss.

Decommissioning obligations

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

Decommissioning obligations generally arises when the environmental disturbance, subject to government laws and regulations, requires remediation. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related petroleum and natural 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 obligation in the period in which they occur.

Leases

When Saturn becomes party to a new contract, management assesses that contract against the criteria under IFRS 16 Leases. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments, determined by discounting the remaining lease payments using the interest rate implicit in the lease, if available, or the Company's incremental borrowing rate. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities and payments are applied against the lease liability.

Convertible notes

The Convertible notes are a non-derivative financial instrument that creates a financial liability and grants an option to the holder of the instrument to convert it into common shares of the Company. The liability component of the Convertible notes is initially recorded at the fair value of a similar liability that does not have a conversion option. The equity component is recognized initially as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the Convertible notes is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the Convertible notes are reclassified to share capital upon on conversion to common shares.

Share Capital
Proceeds from the issuance of common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity as share issue costs.

Warrants
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 and recorded within shareholders' equity. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share issue costs and recorded within shareholders' equity, or if a cashless exercise options exists as a liability which is remeasured at each reporting date.

Revenue
Revenue from the sale of crude oil, natural gas and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with marketers and other third parties. Saturn recognizes revenue when it transfers control of the product to the contract customer. In making this evaluation, management considers if Saturn has the ability to direct the use of, and obtain substantially all of the remaining benefits from the delivery of the product.

Saturn evaluates its arrangements with marketers and other third parties to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

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. Consequently, the Company does not adjust any of the transaction prices for the time value of money.

Share-based payments
The Company uses the fair value method of accounting for its long-term incentive plans, which include an incentive Stock Option Plan (the "Stock Option Plan") and a Restricted Share Unit and Deferred Share Unit Plan (the "RSU/DSU Plan"). Judgments include which valuation model is most appropriate for the grant of the award to estimate its fair value. Estimates and assumptions are then used in the valuation model to determine fair value (note 16).

For stock options, the Company uses the Black-Scholes option pricing model which requires that management make assumptions for the expected life of the option, the anticipated volatility of the share price over the life of the option, the risk-free interest rate for the life of the option, and the number of options that will ultimately vest. Share based compensation expense is expensed over the vesting period with a corresponding increase to contributed surplus. Consideration received on the exercise of stock options, together with the amount previously recognized in contributed surplus is credited to share capital. The Company capitalizes a portion of share-based payments directly attributable to development activities, with a corresponding decrease to share-based payments expense.

For Restricted Share Units ("RSUs") or Deferred Share Units ("DSUs"), the fair value of the award is estimated based on the market price as ascribed by the TSXV, being the closing price on the day issued. Judgment is also required to estimate the rate of forfeiture, or number of RSUs or DSUs that will ultimately vest. Share based compensation expense is expensed over the vesting period with a corresponding increase to contributed surplus. Once vested, common shares are issued from Treasury and recorded with an increase to share capital and a corresponding decrease to contributes surplus. The Company capitalizes a portion of share-based payments directly attributable to development activities, with a corresponding decrease to share-based payments expense. The RSU/DSU Plan was issued subsequent to December 31, 2021. Accordingly, no RSU/DSUs are outstanding.

Financing expense

Finance expense comprises interest expense on borrowings, accretion of debt instruments, accretion of leases and accretion of decommissioning obligations. The original issue discount and debt issue costs are recognized within profit or loss using the effective interest method.

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred-tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred-tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred-tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

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.

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 that the grant relates to. Government grants primarily related to income will be recognized in profit or 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 there is reasonable assurance that the Company will comply with the conditions attached to it and that the grant will be received.

Voluntary change in accounting policy

Under the Company's previous accounting policy for decommissioning obligations, the estimate of the expenditures required to settle the present value of the obligation at the date of the statement of financial position was recorded on a discounted basis using the pre-tax risk-free interest rate based on the Government of Canada's benchmark long-term bond yields. In the second quarter of 2021, the Company voluntarily changed its accounting policy to use a credit-adjusted risk-free discount rate.

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

4. DETERMINATION OF FAIR VALUES

Several of the Company's accounting policies and disclosures require the determination of fair value, both for financial and nonfinancial assets and liabilities. Inputs used to estimate fair values are categorized into three levels in a fair value hierarchy. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. The three levels are defined below:

Level 1 - Inputs based on 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 carrying value of deposits and prepaid expenses, accounts receivable and accounts payable approximate fair value due to the short-term nature of those instruments. The carrying value of the lease liabilities approximates the fair value due to known future payments. The fair value measurement on financial derivative commodity contracts, Senior Term Loan, Term Notes, Convertible notes, Note payable and Warrant liability have a fair value hierarchy of Level 2. The fair value measurement of PP&E, E&E, right-of-use assets have a fair value hierarchy of Level 3.

PP&E and E&E
The fair value of Property, plant and equipment recognized is based on market values. The market value of property, plant and equipment is the estimated amount for which property, plant and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on externally prepared reserve reports or in certain circumstances internally generated reserve reports. The market value of E&E assets is estimated with reference to quoted market values for similar transactions.

Cash, deposits and prepaid expenses, accounts receivable and accounts payable
The fair value of cash and cash equivalents, deposits and prepaid expenses, accounts receivable, accounts payable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2021 and December 31, 2020, the fair value of these instruments approximated their carrying value due to their short term to maturity.

Senior Term Loan, Term Notes, convertible notes and promissory notes
The fair value of the Senior Term Loan that is subject to floating Canadian Dollar Offered Rate ("CDOR"), approximates its carrying value as the rate of interest adjusts to market rates. The fair value of the Senior Term Loan not subject to CDOR, Term Notes, convertible notes and note payable that bear fixed rates are carried at amortized cost and approximate their carrying value.

Financial derivatives
The fair value of forward swaps is determined by discounting the difference between the contracted prices and published forward price curves as at the statement of financial position date, using the remaining contracted oil volumes and a rick-free interest rate (based on published government rates). The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

Share-based payments
The fair values of share awards are measured using a Black-Scholes option pricing model. Measurement inputs include share price of the Company on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends and the risk-free interest rate.

5. 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 $82.3 million, after final adjustments, with $2.5 million of transaction costs expensed on the statement of loss and comprehensive loss. Transaction costs included $1.9 million in fees and commission and $0.6 million in broker compensation options. The Acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and liabilities assumed are recorded at the estimated fair value on the acquisition date.

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

($000s)	**Oxbow Acquisition**
Property, plant and equipment	132,897
Decommissioning obligations	(40,213)
Deferred income tax liability	(2,597)
Net assets acquired	**90,087**
Cash consideration	82,297
Gain on acquisition	**(7,790)**

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%.

Petroleum and natural gas sales of $111.9 million and a net income of $36.3 million are included in the statement of loss and comprehensive loss for the acquired assets since the closing date of June 7, 2021.

If the Acquisition had occurred on January 1, 2021, the incremental audited petroleum and natural gas sales and net income recognized for the period ended December 31, 2021, and the pro forma results would have been as follows:

($000s)	**As stated**	**Acquisition prior to close date**	*(Unaudited)* **Pro Forma**
Oil and natural gas sales	116,214	69,304	185,518
Net income (loss)	(65,791)	17,430	(48,361)

6. 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 years:

($000s)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**4,485**	4,115
Additions	**-**	1,078
Disposition on settlement of promissory note	**-**	(500)
Transfers (note 7)	**-**	(208)
Balance, end of year	**4,485**	4,485

As at December 31, 2021, there were no indicators of impairment identified. Accordingly, an impairment test was not performed.

7. PROPERTY, PLANT AND EQUIPMENT

Cost ($000s) *(Restated - note 2)*	**Oil and gas properties**	**Other assets**	**Total**
As at December 31, 2019	46,352	256	46,608
Additions	-	51	51
Transfers (note 6)	208	-	208
As at December 31, 2020	46,560	307	46,867
Additions	**8,592**	**35**	**8,627**
Acquisition (note 5)	**132,897**	**-**	**132,897**
Change in decommissioning obligations	**3,398**	**-**	**3,398**
As at December 31, 2021	**191,447**	**342**	**191,789**
Accumulated depletion, depreciation and amortization			
As at December 31, 2019	8,956	125	9,081
Depletion, depreciation and amortization	4,280	81	4,361
As at December 31, 2020	13,236	206	13,442
Depletion, depreciation and amortization	**15,522**	**147**	**15,669**
Disposals	**(43)**	**(188)**	**(231)**
As at December 31, 2021	**28,715**	**165**	**28,880**
Net book value			
As at December 31, 2020	33,324	101	33,425
As at December 31, 2021	**162,732**	**177**	**162,909**

As at December 31, 2021, the calculation of depletion includes estimated future development costs relating to the development of proved plus probable reserves of $303.4 million (December 31, 2020 - $124.3 million). The Company capitalized $0.6 million of general and administrative costs for the year ended December 31, 2021 (December 31, 2020 – $0.3 million) and capitalized $0.2 million of share-based compensation expense for the year ended December 31, 2021 (December 31, 2020 – $nil).

At December 31, 2021, there were no indicators of impairment identified. Accordingly, an impairment test was not performed.

8. RIGHT-OF-USE ASSETS

The Company recognizes right-of-use assets and corresponding lease liabilities related to certain office facilities and vehicles. See note 9 for additional information regarding the Company's leases.

Cost ($000s)	**Offices**	**Vehicles**	**Total**
As at December 31, 2019	935	-	935
Additions	-	-	-
As at December 31, 2020	935	-	935
Additions	**2,419**	**1,349**	**3,768**
As at December 31, 2021	**3,354**	**1,349**	**4,703**
Accumulated depletion, depreciation and amortization			
As at December 31, 2019	208	-	208
Depletion, depreciation and amortization	162	-	162
As at December 31, 2020	370	-	370
Depletion, depreciation and amortization	**321**	**236**	**557**
As at December 31, 2021	**691**	**236**	**927**
Net book value			
As at December 31, 2020	565	-	565
As at December 31, 2021	**2,663**	**1,113**	**3,776**

9. LEASES

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

($000s)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**610**	758
Lease remeasurement	**581**	-
Additions	**3,188**	-
Lease payment	**(964)**	(202)
Interest expense	**332**	54
Carrying value, end of year	**3,747**	610
Current	**933**	175
Long-term	**2,814**	435

As at December 31, 2021, the estimated undiscounted cash flows required to settle the Company's lease liability was $5.5 million (December 31, 2020 - $0.7 million).

10. WARRANT LIABILITIES

($000s)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**1,032**	1,965
Change in fair value	**87**	(933)
Extinguishments (note 13)	**(1,032)**	-
Additions (note 13)	**4,769**	-
Balance, end of year	**4,856**	1,032

The Company issued 2,190,000 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 December 31, 2021, the warrant liability was determined to have a fair value of $4.9 million resulting in a $0.1 million unrealized loss recognized in profit or loss for the year ended December 31, 2021. The following assumptions were used in the Black-Scholes option pricing model at inception and December 31, 2021: exercise prices of $3.20; maturity dates of December 7, 2024; dividend yields of nil; risk-free interest rates of 1.1%; inception share price and volatility of $3.40 and 95%; and December 31, 2021 share price and volatility of $3.64 and 93%.

The Company cancelled 1,525,256 common share purchase warrants related to the Revolving Notes on June 7, 2021. These were determined to be derivatives and had been recognized as a liability as the warrant holder had a cashless exercise provision allowing them to receive the number of shares based on the Company share price at the exercise date. The warrants had been recognized as debt issue costs and a corresponding amount was included in warrant liability. As at December 31, 2020, the warrants had a fair value of $1.0 million using a Black-Scholes option pricing model. Prior to cancellation, the warrants were determined to have a fair value of $1.7 million resulting in a $0.7 million unrealized loss recognized in profit before cancellation. Upon cancellation, the remaining fair value of $1.7 million was recognized in profit or loss for the year ended December 31, 2021. The warrants were valued with the following assumptions: exercise price of $4.70, share price of $3.40, expiry date of September 30, 2022, volatility of 94%, dividend yield of nil and risk-free interest rates of 0.4%.

11. DECOMMISSIONING OBLIGATIONS

The decommissioning obligation represents costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be $196.2 million (December 31, 2020 - $3.3 million) which has been discounted below using the credit adjusted risk-free rate of 14.5% with an estimated timeline to abandoned between 10 and 60 years.

($000s) *Restated- note 2*	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**415**	380
Acquired (note 5)	**40,213**	-
Obligations incurred (note 7)	**8**	-
Change in estimates (note 7)	**3,390**	-
ASCP settlements	**(256)**	-
Cash settlements	**(53)**	-
Accretion	**3,579**	35
Balance, end of year	**47,296**	415

During the year ended December 31, 2021, approximately $0.3 million was granted to Saturn from the Government of Saskatchewan through the Accelerated Site Closure Program ("ASCP").

In connection with the Oxbow Acquisition, the Company placed a $21.0 million deposit with the Saskatchewan Ministry of Energy and Resources on June 7, 2021.

12. SENIOR TERM LOAN

On June 7, 2021, the Company entered into a $87.0 million senior secured term loan ("Senior Term Loan") at an original issue discount of 3.375% secured by a first-priority lien to all its real and personal assets, property and undertaking. The Company is required to make monthly principal repayments as follows: August 31, 2021 to July 31, 2022 of $3.6 million per month; August 31, 2022 to July 31, 2023 of $2.2 million per month; and August 31, 2023 to June 7, 2024 of $1.5 million per month. All principal repayments are subject to an exit fee of 2.5% on the aggregate principal amount of any such payment. The Senior Term Loan bears interest 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rates at a minimum rate of 1%. The Senior Term Loan has a stated maturity date of June 7, 2024.

($000s)	**December 31, 2021**	December 31, 2020
Loan balance, beginning	**87,000**	-
Repayments	**(18,140)**	-
Unamortized debt issue costs and discount	**(3,805)**	-
Carrying value, end of year	**65,055**	-
Current	**33,582**	-
Long-term	**31,473**	-

Subsequent to December 31, 2021, the Company expanded the Senior Term Loan and amended the monthly principal repayment dates as part of its strategic acquisition and debt consolidation (note 24).

Covenants

The Senior Term Loan is subject to various covenants on the part of the Company including limitations on certain types of activities, restrictions or requirements with respect to additional debt, liquidity, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. As at December 31, 2021, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The following table summarizes the current key financial covenants as set forth in the credit agreement when the aggregate principal amount of the Senior Term Loan is greater than $24.0 million:

Covenant description	Covenant Ratio	December 31, 2021
PDP Asset Coverage Ratio Minimum (1)	1.75	3.20
Current Ratio Minimum (2)	1.00	1.00
First Lien Net Leverage Ratio Maximum (3)	1.75	1.02

(1) The ratio of (a) the PV10 of Saturn's proved developed producing ("PDP") reserves net of unrealized gain (loss) on financial derivatives, to (b) the carrying value of the Senior Term Loan net of cash.

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

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

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

- Total leverage ratio, pursuant to which the ratio of the carrying value of the Senior Term Loan net of cash, to EBITDA for the four quarters most recently ended cannot exceed 3.00 to 1.00;
- Asset coverage, as at the end of any fiscal quarter, pursuant to which the ratio of the PV10 of Saturn's PDP reserves, to the carrying value of the Senior Term Loan net of cash cannot be less than 1.20 to 1.00.

Subsequent to year end as part of the debt consolidation (note 24), the change in covenants once the balance of the Senior Term Loan drops below $24.0 million was removed from the Amended and Restated Credit Agreement in entirety, and the covenants remain the same as stated when the balance of the Senior Term Loan is greater than $24.0 million.

13. TERM NOTES

Subsequent to December 31, 2021, the Company retired the Term Notes in full for the amount of $32.1 million (US$25.3 million) (note 24).

($000s)	**December 31, 2021**	December 31, 2020
Term Notes (1)	**28,858**	-
Unamortized deferred debt issue costs	**(4,754)**	-
Revolving Notes	**-**	26,134
Carrying value, end of year	**24,104**	26,134
Current	**-**	26,134
Long-term	**24,104**	-

(1) The Term Notes principal balance at December 31, 2021 is US$22.8 million converted to $28.9 million at the December 31, 2021 exchange rate of 1.2678 (December 31, 2020 – Revolving Notes principal balance of US$19.7 million converted to $25.1 million at the December 31, 2020 exchange rate of 1.2732). Unamortized deferred debt issue costs are denominated in Canadian dollars.

On June 7, 2021, Saturn entered into a note purchase agreement to exchange US$19.7 million drawn on the US$20 million secured reserve-based revolving note facility ("Revolving Notes") plus accrued and unpaid interest of US$2.0 million and replace them with US$19.7 million in second priority senior secured cash/paid in kind term notes ("Cash/PIK Notes") and US$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.

On December 31, 2020, the Company was in breach of the total leverage ratio and the asset coverage ratio. Accordingly, the balance of the Revolving Notes was classified as current and all unamortized debt issue costs associated were accelerated and expensed in profit and loss.

Covenants

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

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

(1) The ratio of (a) consolidated net debt, excluding the Convertible notes and $0.8 million note payable, to (b) Consolidated EBITDA for the trailing four quarters.

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

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

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

(1) The ratio of (a) Indebtedness at such time to (b) EBITDAX for the period of four fiscal quarters most recently ended. For the calculation, EBITDAX is defined as net income for such period plus financing charges, exploration expenses, income taxes, depreciation, depletion, amortization and other non-cash items of expense for such period (including any provision for the reduction in the carrying value of assets recorded in accordance with GAAP and including non-cash charges resulting from stock based compensation and write downs on assets and non-cash losses resulting from the hedge termination value of outstanding hedges for such period, losses attributable to extraordinary and non-recurring losses for such period; minus all non-cash items of income which were included in determining Net Income (including non-cash gains resulting from the Hedge termination value of outstanding hedging transactions) and earnings attributable to extraordinary and non-recurring gains for such period; provided that such EBITDAX shall be subject to pro forma adjustments for material acquisitions and dispositions assuming that such transactions had occurred on the first day of the applicable calculation.

(2) The ratio of (a) PV10 (b) to consolidated net debt, excluding the Convertible notes and the $0.8 million Promissory note.

(3) The ratio of (a) EBITDAX for the four quarters most recently ended to (b) financing charges.

14. PROMISSORY NOTES

As at December 31, 2021 the Company has a note payable to a shareholder in the amount of $0.8 million (December 31, 2020 - $0.8 million) which bears an interest of 2% and is subordinated until July 2024.

($000s)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**1,332**	2,122
Repayment	**(784)**	(382)
Revaluation	**89**	-
Settlement	**-**	(500)
Interest and accretion	**147**	92
Balance, end of year	**784**	1,332
Current	**-**	479
Long-term	**784**	853

15. CONVERTIBLE NOTES

As at December 31, 2021, the Company has a $1.2 million (December 31, 2020 - $1.0 million) and a $1.0 million (December 31, 2020 - $0.8 million) convertible note payable due to a shareholder. Each note bears interest at 5% per annum and is subordinated until July 2024. The convertible note payable and unpaid interest is convertible into shares of the Company at the option of the holder at a conversion price of $2.00 per share for the $1.2 million convertible note and at $3.00 per share for the $1.0 million convertible note.

($000s)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**2,038**	1,889
Interest and accretion	**159**	149
Balance, end of year	**2,197**	2,038

16. SHARE CAPITAL

Authorized

The company is authorized to issue an unlimited number of common shares with no par value.

On October 13, 2021, the Company consolidated its common shares on the basis of twenty pre-consolidation common shares for one post-consolidation common share. All reference made to common shares, warrants, stock options and broker compensation options ("Broker Options") in these consolidated financial statements are on a post-consolidation basis unless otherwise noted. Certain warrants of the Company were not impacted by the share consolidation, post share consolidation twenty of these certain warrants are now required to convert into one common share.

Issued and outstanding

		December 31, 2021		December 31, 2020
($000s)	**Shares**	**Amount**	Shares	Amount
Balance, beginning of year	**11,728**	**33,027**	11,728	33,027
Common shares issued for cash proceeds	**13,417**	**32,200**	-	-
Allocation to warrants	**-**	**(14,361)**	-	-
Cash share issue costs	**-**	**(2,325)**	-	-
Non-cash share issue costs	**-**	**(3,022)**	-	-
Stock option exercise	**20**	**90**	-	-
Balance, end of year	**25,165**	**45,609**	11,728	33,027

Private Placements

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

- A non-brokered private placement of 153,333,333 units (pre-consolidation) of the Company at a price of $0.12 per unit (pre-consolidation) for gross proceeds of $18.4 million. Each unit consisted of one common share (pre-consolidation) and one common share purchase warrant, with each twenty whole warrants entitling the holder to purchase one common share of the Company at a combined exercise price of $3.20 per share for a period of two years from the issue date. As at December 31, 2021, the warrants are fully vested and exercisable.

- A brokered private placement of 115,000,000 units (pre-consolidation) of the Company at a price of $0.12 per unit (pre-consolidation) for gross proceeds of $13.8 million. Each unit consisted of one common share (pre-consolidation) and one common share purchase warrant, with each twenty whole warrants entitling the holder to purchase one common share of the Company at a combined exercise price of $3.20 per share for a period of two years from the issue date. As at December 31, 2021, the warrants are fully vested and exercisable.

- In connection with the brokered and non-brokered private placements, the Company recorded $5.4 million in share issue costs comprised of $2.4 million in commission and fees and the calculated fair value of $3.1 million associated with 741,451 Broker Options issued to brokers and advisors.

Warrants

(000s, except per warrant price)	**Warrants**	**December 31, 2021 Weighted average exercise price**	Warrants	December 31, 2020 Weighted average exercise price
Balance, beginning of year	**1,525**	**4.70**	3,179	4.20
Issued [(1)]	**13,417**	**3.20**	-	-
Issued (note 10)	**2,190**	**3.20**	-	-
Cancelled (note 10)	**(1,525)**	**4.70**	-	-
Expired	**-**	**-**	(1,654)	3.60
Balance, end of year	**15,607**	**3.20**	1,525	4.70

(1) Reflects 268,333,333 warrants outstanding, exercisable on a twenty warrant per exercise basis at a combined price of $3.20 per exercise.

The Company issued 268,333,333 warrants in connection to the Private Placement and were allocated a fair value of $14.4 million. Notwithstanding the share consolidation, the 268,333,333 were not consolidated such that, after giving effect to the consolidation, each twenty warrants entitle the holder thereof to purchase one post-consolidation common share at an adjusted exercise price of $3.20, for a total of 13,416,667 common shares remaining issuable. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of 24 months; volatility of 108%; risk-free interest rate of 0.5%; and a dividend yield of 0%.

As at December 31, 2021, the following share purchase warrants were issued and outstanding:

	Warrants outstanding			Warrants exercisable		
(000s, except per warrant price)	**Number outstanding**	**Weighted average exercise price**	**Weighted average life remaining (years)**	Number exercisable	Weighted average exercise price	Weighted average life remaining (years)
3.20 [(1)]	13,417	3.20	1.4	13,417	3.20	1.4
3.20 (note 10)	2,190	3.20	2.9	2,190	3.20	2.9
	15,607	3.20	2.0	15,607	3.20	2.0

(1) Reflects 268,333,333 warrants outstanding, exercisable on a twenty warrant per exercise basis at a combined price of $3.20 per exercise.

Broker Options

(000s, except per option price)	**Broker options**	**December 31, 2021 Weighted average exercise price**	Broker options	December 31, 2020 Weighted average exercise price
Balance, beginning of year	**-**	**-**	-	-
Issued	**891**	**2.40**	-	-
Balance, end of year	**891**	**2.40**	-	-

In consideration for services rendered in relation to the Private Placement and the Oxbow Acquisition, the Company issued 891,456 Broker Options to certain agents, brokers and advisors. Each Broker Compensation Option is exercisable at a price of $2.40 and entitles the holder to one common share of the Company and twenty warrants. Each twenty warrants entitle the holder to purchase one common share of the Company at a combined price of $3.20 for a period of two years from the issue date. As at December 31, 2021, the Broker Options are fully vested and exercisable.

The fair value of $3.0 million associated with the 741,456 Broker Options in connection to the Private Placement was recorded as share issue costs. The fair value of $0.6 million associated with the 150,000 Broker 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 December 31, 2021, the following total Broker Options were issued and outstanding:

	Broker options outstanding			Broker options exercisable		
($000s, except per option price)	Number outstanding	Weighted average exercise price	Weighted average life remaining (years)	Number exercisable	Weighted average exercise price	Weighted average life remaining (years)
2.40	741	2.40	1.4	741	2.40	1.4
2.40 (note 5)	150	2.40	1.4	150	2.40	1.4
	891	2.40	1.4	891	2.40	1.4

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, officers, and employees enabling them to acquire common shares of the Company upon exercise. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's common shares on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest either at 25% on the date of grant and 12.5% at the end of every quarter after the grant date, 10% on the date of grant and 7.5% at the end of every quarter after the grant date, or 1/3 on each of the first, second and third anniversary after the grant date. Vesting conditions are determined by the Board of Directors. A summary of the changes in stock options outstanding is as follows:

(000s, except per option price)	**Stock options**	**December 31, 2021 Weighted average exercise price**	Stock options	December 31, 2020 Weighted average exercise price
Balance, beginning of year	**1,376**	**2.51**	1,614	2.60
Granted	**800**	**2.51**	244	2.00
Exercised	**(20)**	**2.50**	-	-
Expired	**(146)**	**2.69**	(76)	4.00
Forfeited/cancelled	**(28)**	**3.00**	(406)	2.20
Balance, end of year	**1,982**	**2.49**	1,376	2.51

As at December 31, 2021, the following options were exercisable and outstanding:

	Stock options outstanding			Stock options exercisable		
(000s, except per option price)	Number outstanding	Weighted average exercise price	Weighted average life remaining (years)	Number exercisable	Weighted average exercise price	Weighted average life remaining (years)
1.60 - 2.00	615	1.78	1.3	568	1.76	1.1
2.01 - 2.90	890	2.50	4.4	250	2.40	3.8
2.91 - 4.00	477	3.39	2.2	450	3.41	2.2
	1,982	2.49	2.9	1,268	2.47	2.0

During the year ended December 31, 2021, the Company expensed $0.5 million (2020 – $0.7 million) and capitalized $0.2 million (2020 - nil) related to share-based compensation. The fair value was measured using the Black-Scholes option pricing model with the following weighted average assumptions:

(CAD $000s)	**December 31, 2021**	December 31, 2020
Expected life (years)	**5**	5
Risk-free interest rate (%)	**0.85**	0.36
Expected volatility (%)	**92.69**	100.25
Forfeiture rate (%)	**5.00**	-
Expected dividend yield (%)	**-**	-

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 Options, warrants, and convertible notes. Diluted net loss per share for the years ended December 31, 2021 and 2020 is equal to basic net loss per share because the effect of all potential dilutive securities outstanding during the periods, including stock options, broker warrant options, warrants, and convertible notes is anti-dilutive. The components of basic and diluted net loss per share are as follows:

	For the years ended December 31,	
(000s, except per share amounts)	**2021**	2020
Weighted average shares outstanding		
Basic and diluted	**19,339**	11,728
Per share loss		
Basic and diluted	**(3.40)**	(0.60)

17. INCOME TAXES

The following table reconciles income taxes calculated at the Canadian statutory rate with the actual provision for deferred income taxes per the statements of net loss and comprehensive loss.

	For the year ended December 31,	
($000s, except statutory rates)	**2021**	2020
Loss before income taxes	**(67,658)**	(7,758)
Statutory income tax rate	**25.0%**	26.8%
Expected income tax recovery	**(16,915)**	(2,079)
Increase (decrease) resulting from:		
Non-deductible expenses	**171**	181
Adjustments in respect of prior year	**(69)**	
Change in effective tax rate and other	**370**	779
Change in unrecognized deferred income tax assets	**13,846**	1,119
Deferred income tax recovery	**(2,597)**	-

The components of the Company's deferred income tax asset (liability) are as follows:

($000s)	December 31, 2020	Recognized on the Statement of Loss and Comprehensive Loss	Recognized on business combination	**December 31, 2021**
PP&E and E&E assets	-	(4,083)	(12,650)	**(16,733)**
Financial derivatives	(13)	4,922	-	**4,909**
Debt issue costs	-	-	-	**-**
Decommissioning obligations	13	1,758	10,053	**11,824**
Debt obligations	-	-	-	**-**
Lease liabilities	-	-	-	**-**
Share issue costs	-	-	-	**-**
Non-capital losses	-	-	-	**-**
	-	2,597	(2,597)	**-**

Deferred tax assets have not been recognized for the following deductible temporary differences:

	For the year ended December 31,	
($000s)	**2021**	2020
PP&E and E&E assets	**-**	8,995
Financial derivatives	**54,887**	-
Debt issue costs	**1,205**	-
Decommissioning obligations	**-**	368
Debt obligations	**642**	-
Lease liabilities	**3,746**	610
Share issue costs	**5,592**	1,235
Non-capital losses	**21,629**	6,657
Total unrecognized deductible temporary differences	**87,701**	17,865

At December 31, 2021, the petroleum and natural gas assets and facilities owned by Saturn have an approximate tax basis of $104.0 million (December 31, 2020 - $47.5 million) available for deduction against future taxable income. The Company has approximately $21.6 million (December 31, 2020 - $6.7 million) in non-capital loss carryforwards available to reduce future taxable income which expire between 2031 and 2041.

18. REVENUE

	For the year ended December 31,	
($000s)	**2021**	2020
Crude oil	**112,802**	7,549
NGLs	**1,194**	-
Natural gas	**727**	-
Petroleum and natural gas revenue	**114,723**	7,549
Processing income	**1,491**	-
Petroleum and natural gas sales	**116,214**	7,549

Saturn sells its oil, natural gas, and NGLs production under variable price contracts. The transaction price is based on a benchmark commodity price, adjusted for quality, location, processing charges or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenue is typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point. Saturn generates oil treating, gas processing, and other services income from fees charged to third parties provided at facilities where Saturn has an ownership interest.

Included in accounts receivable as at December 31, 2021 is $18.0 million (December 31, 2020 – $0.7 million) of accrued petroleum and natural gas revenues related to December 2021 production.

19. FINANCING

	For the year ended December 31,	
($000s)	**2021**	2020
Interest expense, cash	**7,718**	3,163
Interest expense, paid in kind	**2,703**	991
Amortization of original issue discount and debt issue costs	**3,251**	5,699
Accretion, debt instruments	**394**	240
Accretion, leases	**332**	54
Accretion, decommissioning obligations	**3,579**	35
Total financing costs	**17,977**	10,182

20. SUPPLEMENTAL CASH FLOW INFORMATION

	For the year ended December 31,	
($000s)	**2021**	2020
Change in non-cash working capital:		
Accounts receivable	**(19,300)**	889
Deposits and prepaid expenses	**(26,999)**	(114)
Accounts payable	**23,703**	(3,500)
	(22,596)	(2,725)
Related to:		
Operating activities	**(26,722)**	(2,499)
Financing activities	**991**	-
Investing activities	**3,135**	(226)
Total change in non-cash working capital	**(22,596)**	(2,725)

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 December 31, 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 year ended December 31, 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. The Company prepares annual capital expenditure budgets which are regularly monitored. The budgeted capital spending is not committed and can be adjusted as required. Subsequent to year-end, the Company completed both debt consolidation and equity financing transactions, see note 24 for further information Management believes it will have sufficient funding to meet foreseeable liquidity requirements. The Company has the following maturities of financial liabilities as at December 31, 2021:

($000s)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	36,270	32,590	-	-	68,860
Term Notes (1)	-	37,869	-	-	37,869
Interest payments (2)	8,238	5,939	-	-	14,177
Promissory notes	-	823	-	-	823
Convertible notes	-	2,329	-	-	2,329
Lease liabilities (3)	1,543	2,082	799	1,244	5,668
Gas processing contracts	943	1,886	1,886	7,622	12,337
Accounts payable	28,850	-	-	-	28,850
	75,844	83,518	2,685	8,866	170,913

(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 December 31, 2021 US to Canadian dollar exchange rate of 1.2678.
(2) Represents cash interest payments on scheduled payment dates related to the Senior Term Loan and Term Notes.
(3) Represents the remaining undiscounted minimum lease payments on the company's lease liabilities.

c) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arise principally from the Company's accounts receivable from oil and natural gas marketers and joint operators in the oil and gas industry. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production.

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

The maximum credit exposure on accounts receivable at the reporting date by type of customer was:

($000s)	**December 31, 2021**	December 31, 2020
Oil and natural gas marketing companies	**17,493**	652
Joint venture partners	**1,751**	23
Other	**795**	64
Total accounts receivable	**20,039**	739

The Company's five most significant customers account for $17.5 million of accounts receivable as at December 31, 2021 (December 31, 2020 – one Canadian oil and natural gas marketer accounted for $0.7 million) and are classified as current. The Company's accounts receivable is aged as follows:

($000s)	**December 31, 2021**	December 31, 2020
Current (less than 90 days)	**19,653**	739
Past due (more than 90 days)	**386**	-
Total accounts receivable	**20,039**	739

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 $2.5 million change to net loss before tax (2020 – $2.7 million) assuming all other variables remain constant. The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Senior Term Loan fluctuates with the interest rates associated with the periodic outstanding term based on Canadian dollar bankers' acceptance rates. The Company is exposed to interest rate risk related to the unpaid principal balance outstanding on the Senior Term Loan. A change in Canadian dollar bankers' acceptance rates by 1% would have changed net loss by approximately $0.2 million during the year ended December 31, 2021 (2020 – $0.3 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 derivatives

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 $33.6 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 December 31, 2021:

Commodity	Index	Type	Remaining Term	Daily volume (bbls/d)	Bought put price (US$/bbl)	Sold call price (US$/bbl)	Swap price ($US/bbl)
WTI Crude Oil	NYMEX	Collar	Jan 1-22 to Jun 30-22	2,935	61.70	67.50	
WTI Crude Oil	NYMEX	Collar	Jul 1-22 to Oct 31-22	2,815	53.55	65.49	
WTI Crude Oil	NYMEX	Collar	Nov 1-22 to Dec 31-22	2,250	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	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	Jan 1-22 to Mar 31-22	4,943			6.07
WTI MSW Differential (1)	NGX	Swap	Apr 1-22 to Jun 30-22	4,797			6.07
WTI MSW Differential (1)	NGX	Swap	Jul 1-22 to Sep 30-22	4,651			6.07
WTI MSW Differential (1)	NGX	Swap	Oct 1-22 to Dec 31-22	4,522			6.07

(1) Based on weighted average volumes for the period

Subsequent to December 31, 2021, the Company entered into the following financial derivative commodity contracts:

Commodity	Index	Type	Term	Daily volume (bbls/d)	Bought put price (US$/bbl)	Sold call price (US$/bbl)	Swap price ($US/bbl)
WTI Crude Oil	NYMEX	Collar	Nov 1-22 to Dec 31-23	179	60.00	92.00	
WTI Crude Oil	NYMEX	Collar	Jan 1-24 to Dec 31-24	122	60.00	78.75	
WTI Crude Oil	NYMEX	Collar	Jan 1-25 to Feb 28-26	1,108	65.00	68.10	
WTI Crude Oil	NYMEX	Swap	Jan 1-25 to Feb 28-26	1,108			67.03
WTI MSW Differential	NGX	Swap	Apr 1-22 to Dec 31-22	833			3.70
WTI MSW Differential	NGX	Swap	Apr 1-22 to Dec 31-23	2,586			5.70

Financial derivative assets and liabilities are only offset if the Company has the legal right to offset and intends to settle on a net basis or settle the instrument simultaneously. The Company offsets financial instrument assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivative commodity contracts that are offset on the statements of financial position as at December 31, 2021:

($000s)	**Gross financial derivative instruments**	**Amount offset**	**Net financial derivative instruments**
Current asset	3,548	(3,548)	-
Long term asset	12,842	(12,842)	-
Current liability	(35,267)	3,548	(31,719)
Long term liability	(55,646)	12,842	(42,804)
Net liability position	**(74,523)**	**-**	**(74,523)**

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.

($000s)	**December 31, 2021**	December 31, 2020
Cash	(2,415)	(569)
Accounts receivable	(20,039)	(739)
Deposits and prepaid expenses	(27,482)	(484)
Accounts payable	28,850	5,147
Senior Term Loan	65,055	-
Term Notes	24,104	-
Promissory notes	784	1,332
Convertible notes	2,197	2,038
Revolving Notes	-	26,134
Net debt	71,054	32,859
Shareholders' equity (deficit)	(31,036)	3,606
Total capitalization	40,018	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.

22. COMMITMENTS

The Company has the following contractual obligations and commitments as at December 31, 2021:

($000s)	**Less than 1 year**	**1-3 years**	**3-5 years**	**Greater than 5 years**	**Total**
Senior Term Loan	36,270	32,590	-	-	68,860
Term Notes (1)	-	37,869	-	-	37,869
Interest payments (2)	8,238	5,939	-	-	14,177
Promissory notes	-	823	-	-	823
Convertible notes	-	2,329	-	-	2,329
Lease liabilities (3)	1,543	2,082	799	1,244	5,668
Gas processing contracts	943	1,886	1,886	7,622	12,337
	46,994	83,518	2,685	8,866	142,063

(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 December 31, 2021 US to Canadian dollar exchange rate of 1.2678.

(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.

23. RELATED PARTY TRANSACTIONS

The Company engages Broadbill Energy Inc. ("Broadbill") to provide Saturn with oil and gas marketing services. The Chief Executive Officer of Broadbill is a director and shareholder of Saturn, and the Chief Executive Officer of Saturn is a director of Broadbill. During the year ended December 31, 2021, the Company incurred $0.5 million in marketing fees ($0.1 million for the year ended December 31, 2020). As at December 31, 2021, a $0.1 million payable balance ($0.1 million – December 31, 2020) was outstanding.

The Company engages Axiom Exploration Group Ltd. ("Axiom") to provide Saturn with project management services related to the Saskatchewan Accelerated Site Closure Program. The Chief Executive Officer of Saturn is a director and shareholder of Axiom. During the year ended December 31, 2021, the Company incurred $0.1 million in project management services ($0.1 million for the year ended December 31, 2020). As at December 31, 2021, a $0.1 million payable balance ($0.1 million – December 31, 2020) was outstanding.

Compensation relating to key management personnel and directors of the Company, including salaries and accrued bonuses and share based payments for the year ended December 31, 2021 totaled $1.8 million and $0.6 million, respectively (December 31, 2020 – $0.8 million and $0.6 million).

24. SUBSEQUENT EVENTS

a) Debt consolidation

On February 28, 2022 the Company entered into an Amended and Restated Senior Term Loan Agreement with its senior secured lender and expanded the Senior Term Loan to an aggregate principal amount of $103.2 million. The retirement date of June 7, 2024 remains, however the monthly principal repayment schedule has been amended as follows: February 28, 2022 to April 30, 2022 of $nil, May 31, 2022 to April 30, 2023 of $4.3 million per month; May 31, 2023 to April 30, 2024 of $2.6 million per month; and May 31, 2024 to June 7, 2024 of $1.7 million per month. All other significant terms, conditions and current covenants of the Senior Term Loan remain consistent.

Concurrent with the expansion of the Senior Term Loan, the Company accelerated the retirement of the second-lien Term Notes for $32.1 million (US$25.3 million).

b) Strategic acquisition

On February 28, 2022, the Company acquired certain oil & gas assets in the Plato area of West-Central Saskatchewan for total consideration of $7.6 million, after interim closing adjustments..

c) Equity Financing

On March 10, 2022, the Company closed a Bought Deal Offering and concurrent Non-Brokered Private Placement Offering (the "Offerings"). Pursuant to the Bought Deal Offering, the Company issued 6,141,000 units for $3.00 per Unit (including full exercise of the Underwriters' over-allotment option) for gross proceeds of $18.4 million. Under the Company's concurrent Non-Brokered Private Placement, the Company issued 730,000 units for gross proceeds of $2.2 million. Total gross proceeds raised under the Offerings was $20.6 million.

The units issued pursuant to the Offerings were issued for $3.00 per unit and consisted of one common share of the Company and one common share purchase warrant of the Company. Each warrant will be exercisable at a price of $4.00 to acquire one common share for 36 months following the issue date.