



**SATURN OIL & GAS INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF**

FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

Dated: August 29, 2019

## **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") of Saturn Oil & Gas Inc. (the "Company" or "Saturn") has been prepared by management in accordance with the requirements of National Instrument of 51-102 as of June 30, 2019, and should be read in conjunction with the unaudited interim financial statements for the six months ended June 30, 2019 and 2018 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The following should also be read in conjunction with the audited annual financial statements for the year ended December 31, 2018 and related notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a "Venture Issuer" as defined in NI 51-102 Continuous Disclosure Obligations. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.saturnoil.com](http://www.saturnoil.com).

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

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

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

## **OVERVIEW OF THE BUSINESS**

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

The Company's corporate headquarters are at Suite 1000 – 207 9 Ave SW, Calgary, Alberta, T2P 1K3. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange and trade under the symbol "SOIL".

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

(\$, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Financial</b>				
Oil revenue	5,461,802	1,055,832	10,041,657	2,150,409
Net income	1,186,963	71,717	2,825,739	334,953
Per share – basic & diluted	0.01	(0.00)	0.01	(0.00)
<b>Production Volumes</b>				
Crude oil (bbls/d)	857	163	834	178
Natural gas (Mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	-	-	-	-
Total (bbls/d)	857	163	834	178
% liquids	100%	100%	100%	100%
<b>Average Realized Prices</b>				
Crude Oil (\$/bbl)	70.05	71.15	66.53	66.83
Natural gas (\$/Mcf)	-	-	-	-
Natural gas liquids (\$/bbl)	-	-	-	-
Total (\$/boe)	70.05	71.15	66.53	66.83
<b>Operating Netback<sup>1</sup> (\$/boe)</b>				
Realized price	70.05	71.15	66.53	66.83
Royalties	(3.74)	(8.04)	(3.10)	(8.62)
Operating costs	(10.83)	(13.25)	(11.09)	(12.11)
<b>Operating netbacks<sup>1</sup></b>	<b>55.48</b>	<b>49.86</b>	<b>52.36</b>	<b>46.10</b>
Realized loss on derivative instruments	(2.59)	-	(1.53)	-
Operating netback, after realized loss on derivative instruments	52.89	49.86	50.83	46.10

1) See “Non-IFRS Measures”

### 2019 Year-to-Date highlights:

- Saturn’s strategy has continued to be focused on the acquisition and development of quality Viking light oil assets.
- Saturn was successful in drilling and bringing on-line nine extended reach horizontal Viking wells. This includes five wells in Prairiedale, two in Milton and two in Kerrobert.
- Production averaged 832 bbls/day. The peak production rate was over 1,400 bbls/day.
- Adjusted EBITDAX (before pro-forma adjustments) was \$6.98 million, a \$6.12 million increase from the same period in 2018 (see “Non-IFRS Measures”), primarily due to the successful drilling of wells and an increase in operating netbacks(see “Non-IFRS Measures”).
- Net income for the first half of 2019 was \$2.83 million, compared to net income of \$332,000 in the same period of 2018. The increase of \$2.49 million was primarily a result of increased production, higher operating netbacks (see “Non-IFRS Measures”), and an unrealized gain on warrant liability, net of increases in interest on long-term debt and non-cash amortization and depletion expenses.
- Saturn’s operating netback (see “Non-IFRS Measures”) before realized loss on derivatives was \$52.36/bbl, an increase of \$6.26/bbl from the same period in 2018. The increase was primarily due to a decrease of \$5.52/bbl in royalty costs. The decrease in royalty costs was due to the drilling of wells on crown land where realized royalties are much lower than those drilled on freehold land.
- During the period, Saturn acquired 15.9 sections, or 4,114.1 hectares of land for \$703,200, an average of \$170.93 per hectare. At June 30, 2019 Saturn’s land holdings totaled 55.5 gross sections, an increase of 15.9 sections from December 31, 2018 or 37%.

- Saturn successfully drilled, completed, equipped and tied-in (“DCET”) a total of nine 100% working interest (“WI”) wells for total DCET expenditures of \$9.85 million, or approximately \$1.09 million per well.
  - In Milton, two 100% WI extended reach horizontal (“ERH”) wells were drilled in Q1 2019 with an area average 30-day production rate (“IP30”) of 62 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 102/12-11-030-27W3/00 with an IP30 of 74 bbls/d (see “Advisory Regarding Oil and Gas Information”).
  - In Kerrobert, two 100% WI ERH wells were drilled in Q1 2019 with an area average 60-day production rate (“IP60”) of 144 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 104/09-09-032-24W3/00 with an IP30 of 153 bbls/d (see “Advisory Regarding Oil and Gas Information”).
  - In Prairiedale, five 100% WI ERH wells were drilled in Q1 2019 with an area average IP30 of 91 bbls/d (see “Advisory Regarding Oil and Gas Information”). The top producing well in the area was 102/15-01-033-27W3 with an IP30 of 132 bbls/d (see “Advisory Regarding Oil and Gas Information”).
- At June 30, 2019, Saturn had US\$18.17 million of borrowings (CAD\$23.78 million converted at an exchange rate of \$1.00 USD to \$1.3087 CAD on June 30, 2019) drawn against the US\$20.00 million Revolving Note (CAD\$26.17 million using the period-end exchange rate).

### **Second quarter 2019 highlights:**

- Production averaged 857 bbls/day for the second quarter of 2019.
- Saturn’s operating netback (see “Non-IFRS Measures”) before realized loss on derivatives was \$55.48/bbl for the second quarter of 2019, an increase of \$5.62/bbl from the second quarter of 2018. The increase was primarily due to a decrease of \$4.30/bbl in royalty costs and a decrease of \$2.42/bbl in operating costs. The decrease in royalty costs was due to the drilling of wells on crown land where realized royalties are lower than those wells drilled on freehold land.
- During the quarter, Saturn acquired 6.75 sections of land for \$211,033, an average of \$120.71 per hectare. At June 30, 2019 Saturn’s land holdings totaled 55.5 gross sections, an increase of 15.9 sections from December 31, 2018 or 18.35%.
- Adjusted EBITDAX (see “Non-IFRS Measures”), before pro-forma adjustments, was \$3.887 million, a \$3.53 million increase from second quarter 2018, primarily due to the successful drilling wells and the increase in operating netbacks.
- Net income for the second quarter 2019 was \$1.19 million, compared to net income of \$72,700 in the same quarter of 2018. The increase of \$1.12 million was primarily a result of increased production and higher operating netbacks, net of increases in interest on long-term debt and non-cash amortization and depletion expenses.

### **OUTLOOK**

With continued volatility and uncertainty in Canadian oil and natural gas prices, coupled with the Company’s ongoing commitment to enhance financial flexibility, Saturn believes it has developed a conservative budget that affords meaningful growth in the context of the broader commodity price environment while also supporting balance sheet strength and financial flexibility.

## RESULTS OF OPERATIONS

### Production

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Production Volumes</b>				
Crude oil (bbls/d)	857	163	834	178
Natural gas (Mcf/d)	-	-	-	-
Natural gas liquids (bbls/d)	-	-	-	-
Total (bbls/d)	857	163	834	178
% liquids	100%	100%	100%	100%

Saturn's production for the three and six months ended June 30, 2019 increased 426% and 369%, respectively, compared to the corresponding periods in 2018. The Company's effort to focus on light oil opportunities resulted in the successful DCET of nine (9) 100% WI ERH wells .

### Revenue

(\$, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
<b>Revenue</b>				
Crude oil	5,461,802	1,055,832	10,041,657	2,150,409
Natural gas	-	-	-	-
Natural gas liquids	-	-	-	-
<b>Average Realized Prices</b>				
Crude Oil (\$/bbl)	70.05	71.15	66.53	66.83
Natural gas (\$/Mcf)	-	-	-	-
Natural gas liquids (\$/bbl)	-	-	-	-
Total (\$/boe)	70.05	71.15	66.53	66.83
<b>Operating Netback<sup>1</sup> (\$/boe)</b>				
Realized price	70.05	71.15	66.53	66.83
Royalties	(3.74)	(8.04)	(3.10)	(8.62)
Operating costs	(10.83)	(13.25)	(11.09)	(12.11)
<b>Operating netbacks<sup>1</sup></b>	<b>55.48</b>	<b>49.86</b>	<b>52.36</b>	<b>46.10</b>
Realized loss on derivative instruments	(2.59)	-	(1.53)	-
Operating netback, after realized loss on derivative instruments	52.89	49.86	50.83	46.10

1) See "Non-IFRS Measures"

Saturn's second quarter revenue increased by 417%, or \$4.41 million, from the second quarter of 2018. On a year-to-date basis, revenue increased 367%, or \$7.89 million, for the same period. Despite the lower realized price, the increase in revenue is due to the decreases in royalty and operating costs, as well as the significant increases in production.

### Royalties

(\$, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Royalties	291,490	119,340	467,715	277,310
Per bbl	3.74	8.04	3.10	8.62
Percentage of revenue	5.34%	11.30%	4.66%	12.90%

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

## Commodity Price and Risk Management

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

(\$, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Realized loss on derivative	201,671	-	231,109	-
Per bbl	2.59	-	1.53	-

In February 2019 Saturn entered into a costless collar for 400 bbl/day of oil produced. The sell put on the collar is priced at \$65.40/bbl (NYMEX WTI Futures) with the buy call priced at \$75.40/bbl (NYMEX WTI Futures).

## Operating Netback<sup>1</sup>

(\$ per bbl)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	70.05	71.15	66.53	66.83
Royalties	(3.74)	(8.04)	(3.10)	(8.62)
Operating costs	(10.83)	(13.25)	(11.09)	(12.11)
Operating netbacks <sup>1</sup>	55.48	49.86	52.36	46.10
Realized loss on derivative instruments	(2.59)	-	(1.53)	-
Operating netback, after realized loss on derivative instruments	52.89	49.86	50.83	46.10

1) See "Non-IFRS Measures"

Saturn's operating netbacks after realized hedging losses increased by \$3.03/bbl and \$4.73/bbl for the three and six months ended June 30, 2019 respectively compared to the corresponding periods in 2018. The increase was primarily due to a decrease of \$5.62/bbl in royalty costs. The decrease in royalty costs was due to the drilling of wells on crown land where realized royalties are lower than for those wells drilled on freehold land.

## Share-based Compensation

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 24,175,000 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's common shares on the grant date. The options can be granted with a maximum term of five years. Options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter following the grant date.

During the second quarter of 2019, Saturn granted 500,000 options to employees of the Company.

During the period ended June 30, 2019, Saturn expensed \$339,234 in share based compensation (2018 - \$275,107).

## Revolving Facility

	June 30, 2019	June 30, 2018
Prudential Capital Energy Partners, L.P.	\$ 21,131,562	\$ -
Prudential Capital Energy Partners Management Fund	2,649,745	-
Loan financing costs	(6,080,451)	-
	\$ 17,700,856	\$ -

On September 14, 2018, the Company entered into a US \$20 million secured reserved based revolving note facility (“Revolving Facility”). As at June 30, 2019, the Company has drawn US\$ 18.17 million (December 31, 2018 - US\$5.9 million, or CDN \$23.78 million equivalent using the June 30, 2019 exchange rate (December 31, 2018 - CDN\$8.0 million) under the Revolving Facility. Commencing October 12, 2018, on or before the tenth business day of each calendar month, the Company shall repay the facility by an amount equal to (i) 100% of net proceeds of production for such month less, without duplication, general and administrative (“G&A”) costs for such month in an amount such that the total for such month and such fiscal year shall not exceed the G&A costs cap, plus (ii) all proceeds from any sales and other dispositions of oil and gas properties. Interest is paid monthly at the U.S. prime rate plus 10.75% per annum.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of the Company’s oil properties in accordance with the lenders’ customary practices for oil and gas loans. The borrowing base is subject to a quarterly redetermination, with the next redetermination scheduled for October 2019.

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

As at June 30, 2019, \$933,117 (December 31, 2018 - \$822,604) of deferred loan financing costs related to the revolving facility were netted against its carrying value. At June 30, 2019, \$132,907 (June 30, 2018 - \$158,967) in deferred loan financing costs related to the revolving facility have been amortized.

## Covenants

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

- total leverage ratio, pursuant to which the ratio of adjusted indebtedness to EBITDAX for the four quarters most recently ended cannot exceed 3.5 to 1.0;

EBITDAX is defined as for any period with respect to the Company and its consolidated Subsidiaries, without duplication, (a) Consolidated Net Income for such period plus (b) to the extent deducted in determining Consolidated Net Income, Financing Charges, exploration expenses, income taxes, depreciation, depletion, amortization and other non-cash items of expense for such period (including any provision for the reduction in the carrying value of assets recorded in accordance with GAAP and including non-cash charges resulting from stock based compensation and write downs on assets and non-cash losses resulting from the Hedge Termination Value of outstanding Hedging Transactions) for such period, losses attributable to extraordinary and non-recurring losses for such period minus (c) all non-cash items of income which were included in determining such Consolidated Net Income (including non-cash gains resulting from the Hedge Termination Value of outstanding Hedging Transactions) and earnings attributable to extraordinary and non-recurring gains for such period; provided that such EBITDAX shall be subject to pro forma adjustments for Material Acquisitions and Material Dispositions assuming that such transactions had occurred on the first day of the applicable calculation.

- interest coverage, pursuant to which the ratio of EBITDAX for the four quarters most recently ended to financing charges to be less than 2.25 to 1.00;
- asset coverage, pursuant to the adjusted PV10 to indebtedness to be less than 1.35 to 1.00.

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

The Company was in compliance with all covenants as at June 30, 2019.

## Finance Costs

(\$, except per unit amounts)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Interest expenses	963,923	78,247	1,693,702	158,967
Loan structuring costs	62,704	94,633	132,907	94,633
Total finance cost	1,026,627	172,880	1,826,609	253,600
Per boe	13.17	11.78	12.10	7.87

Interest expense is primarily comprised of the interest incurred on the Company's revolving notes and convertible notes. Interest expense increased \$885,676 and \$1.53 million, respectively for the three months and six months ending June 30, 2019 compared to the same periods in 2018. The increases can be attributed to increased average borrowings as well as increased interest paid on the Revolving Facility. Loan structuring costs relate to the expensed portion of deferred loan structuring fees paid on the Revolving Facility.

## Gain Loss on Foreign Exchange

(\$)	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Realized gain on foreign exchange	162,166	-	3,510,204	-
Unrealized gain (loss) on foreign exchange	352,753	-	(3,068,008)	-
Gain on foreign exchange	514,919	-	442,196	-

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

## Related Party Transactions

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

Compensation	Six months ended June 30,	
	2019	2018
Consulting and geological in exploration and evaluation assets	125,310	135,303
Key management compensation	280,833	175,000
Legal fees	39,976	26,092
Share based payments	276,994	200,157
Total	\$ 723,113	\$ 536,552

As at June 30, 2019, the Company owed \$NIL (June 30, 2018 - \$171,147) to its directors, officers, other key management personnel of the Company, or companies controlled by officers of the Company.

## SUBSEQUENT EVENTS

Subsequent to the period ended June 30, 2019, the Company:

- Received proceeds of USD \$1,640,000 from the Revolving Notes. Repaid USD \$969,091.
- Acquired an additional 1,506.0 hectares of petroleum and natural gas rights in Saskatchewan for \$408,741.
- As of August 19, 2019, Saturn's land holdings totaled 59.5 gross sections



## Non-IFRS Measures

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

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

(\$)	Six months ended June 30,	
	2019	2018
Revolving notes	17,700,856	-
Warrant liability	2,018,928	-
Convertible notes	1,676,944	3,291,717
Total debt	21,396,728	3,291,717
Working capital:		
Current assets	3,288,996	1,410,132
Less current liabilities	5,267,847	5,495,401
Working capital deficiency/(surplus)	1,978,851	4,085,269
Net debt	23,375,579	7,376,986

- (c) **Adjusted EBITDAX** – for any period with respect to the Company and its consolidated Subsidiaries, without duplication, (a) Consolidated Net Income for such period plus (b) to the extent deducted in determining Consolidated Net Income, Financing Charges, exploration expenses, income taxes, depreciation, depletion, amortization and other non-cash items of expense for such period (including any provision for the reduction in the carrying value of assets recorded in accordance with GAAP and including non-cash charges resulting from stock based compensation and write downs on assets and non-cash losses resulting from the Hedge Termination Value of outstanding Hedging Transactions) for such period, losses attributable to extraordinary and non-recurring losses for such period minus (c) all non-cash items of income which were included in determining such Consolidated Net Income (including non-cash gains resulting from the Hedge Termination Value of outstanding Hedging Transactions) and earnings attributable to extraordinary and non-recurring gains for such period; provided that such EBITDAX shall be subject to pro forma adjustments for Material Acquisitions and Material Dispositions assuming that such transactions had occurred on the first day of the applicable calculation period for the ratios set forth in Section 11.1, which adjustments shall be made in a manner reasonably acceptable to the Required Holders.

(\$)	Three months ended	
	June 30, 2019	
Consolidated net income	\$	1,186,963
EBITDAX adjustments		2,701,520
Adjusted EBITDAX	\$	3,888,483

## RISKS AND UNCERTAINTIES

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

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

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

Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on oil and gas companies (as well as companies with mining operations) in order to minimize long term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and reasonably re-establish pre-disturbance land forms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with ongoing exploration and development, Saturn must allocate financial resources that might otherwise be spent on further exploration and development programs.

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

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

### Capital management

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

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at June 30, 2018, the Company is not subject to externally imposed capital requirements.

Management reviews its approach to capital management on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the period ended June 30, 2019.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at June 30, 2019, the Company had \$1,858,001 (December 31, 2018 - \$140,722) in cash and cash equivalents and \$5,267,847 (December 31, 2018 - \$12,594,368) in current liabilities. The Company is exposed to liquidity risk.

The following are the expected maturities of its financial liabilities as at June 30, 2019:

	<1 Year	1-2 Years	>2 Years
Accounts payable and accrued liabilities	\$ 4,498,038	\$ -	\$ -
Convertible notes	-	1,676,944	-
Revolving notes	-	-	17,700,856

#### Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and amounts receivable. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality financial institutions.

#### Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated revolving notes. A 10% strengthening or weakening of the US dollar will contribute a \$2.4 million increase or decrease to the Company's net loss before tax (2018 – NIL). The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

#### Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Revolving Facility fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Facility.

A change in prime interest rates by 1% would have changed net loss by approximately \$101,600 in for the period ending June 30, 2019 (2018 – NIL) assuming all other variables remain constant.

#### Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatility. 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. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

Saturn manages the above risks by:

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

## **Changes in Internal Control over Financial Reporting (“ICFR”)**

In connection with National Instrument 52-109, Certification of Disclosure in Issuer’s Annual and Interim Filings (“NI 52-109”) adopted in December 2008 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management’s Discussion and Analysis. The Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI52-109.

## **USE OF ESTIMATES**

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

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

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

- a) The recoverability of amounts receivable and due from related parties which is included in the statement of financial position;
- b) The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the statement of financial position;
- c) The determination of the fair value of stock options or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company’s stock options and warrants;
- d) Fair values of petroleum and natural gas properties, depletion and depreciation and amounts used in impairment calculations are based on estimates of crude oil and natural gas reserves, oil and gas prices and future costs required to develop those reserves. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material;
- e) Amounts recorded for asset retirement obligation liabilities including estimates around timing and amount of expenditures required to settle liabilities and the risk-free discount rate used;
- f) In the determination of fair value for promissory and convertible notes, the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, Saturn seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry; and
- g) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow-through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the flow-through share premium liability.

### *Critical accounting judgments*

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

- h) Going concern of operations;
- i) Determination of categories of financial assets and liabilities;
- j) Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units (“CGUs”) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company’s CGUs is subject to management’s judgment; and
- k) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management’s determination of an area’s technical feasibility and commercial viability based partially on proved and probable reserves.

### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.

### **PROPOSED TRANSACTIONS**

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

### **ADVISORY REGARDING OIL AND GAS INFORMATION**

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

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

### **MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

### **OTHER MD&A REQUIREMENTS**

Additional disclosure of the Company’s technical reports, material change reports, news releases and other information can be obtained on the SEDAR website at [www.sedar.com](http://www.sedar.com) and the Company’s website at [www.saturnoil.com](http://www.saturnoil.com).

## DIRECTORS AND OFFICERS

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

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

## FORWARD-LOOKING INFORMATION

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

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

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

## RECENT ACCOUNTING POLICIES

Please refer to the June 30, 2019 unaudited interim financial statements on [www.sedar.com](http://www.sedar.com).

## FINANCIAL INSTRUMENTS

Please refer to the June 30, 2019 unaudited interim financial statements on [www.sedar.com](http://www.sedar.com).