

**SATURN OIL & GAS INC.**

FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Canadian dollars)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Saturn Oil & Gas Inc.

We have audited the accompanying financial statements of Saturn Oil & Gas Inc., which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saturn Oil & Gas Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Saturn Oil & Gas Inc.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

May 4, 2018

**SATURN OIL & GAS INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**AS AT**

	Note	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current</b>			
Cash		\$ 747,241	\$ 190,719
Amounts receivable	4	403,696	14,382
Marketable securities	5	22,400	60,000
Prepaid expenses		-	3,826
Due from related party	12	-	243,099
<b>Total current</b>		<b>1,173,337</b>	<b>512,026</b>
<b>Non-current</b>			
Deposit		41,786	4,000
Investments	6	-	93,344
Environmental deposit	7, 8	285,149	-
Property, plant and equipment	7	2,267,014	-
Exploration and evaluation assets	8	1,510,814	631,754
<b>Total non-current</b>		<b>4,104,763</b>	<b>729,098</b>
<b>Total assets</b>		<b>\$ 5,278,100</b>	<b>\$ 1,241,124</b>
<b>LIABILITIES AND SHAREHOLDERS' DEFICIENCY</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	9	\$ 2,194,623	\$ 1,563,845
Promissory note	10	45,161	100,000
Convertible note	11	1,972,603	-
Due to related parties	12	299,729	93,001
<b>Total current</b>		<b>4,512,116</b>	<b>1,756,846</b>
<b>Non-current</b>			
Asset retirement obligation	13	268,873	-
Convertible notes	11	1,253,746	-
<b>Total non-current</b>		<b>1,522,619</b>	<b>-</b>
<b>Total liabilities</b>		<b>6,034,735</b>	<b>1,756,846</b>
<b>Shareholders' Deficiency</b>			
Share capital	15	22,557,231	21,078,517
Equity reserves	15	6,049,425	5,339,175
Contributed capital on convertible debt		314,692	-
Shares subscribed	15	-	325,035
Accumulated other comprehensive income	6	-	20,566
Deficit		(29,677,983)	(27,279,015)
<b>Total shareholders' deficiency</b>		<b>(756,635)</b>	<b>(515,722)</b>
<b>Total liabilities and shareholders' deficiency</b>		<b>\$ 5,278,100</b>	<b>\$ 1,241,124</b>

**Nature and Continuance of Operations** (Note 1)

**Contingencies and Commitments** (Note 18)

**Subsequent Events** (Note 21)

**Approved by the Board of Directors on May 4, 2018**

*"John Jeffrey"*

Director

*"Scott Newman"*

Director

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

**SATURN OIL & GAS INC.**  
**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**FOR THE YEARS ENDED DECEMBER 31,**

	Note	2017	2016
<b>OIL REVENUE</b>		\$ 210,742	\$ -
<b>ROYALTIES</b>		(41,656)	-
<b>NET REVENUE</b>		169,086	-
<b>COST OF SALES</b>		42,776	-
<b>DEPLETION</b>	7	114,021	-
<b>GROSS PROFIT</b>		12,289	-
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>			
Accounting and auditing	12	\$ 81,910	\$ 104,900
Administration, office and rent		96,100	75,888
Advertising, promotion and public relations		75,875	232,877
Accretion		5,036	
Amortization	7	4,437	-
Consulting	12	26,147	88,500
Filing fees		69,497	14,536
Interest expense		96,932	-
Insurance		25,009	8,117
Legal fees	12	25,077	22,420
Management fees	12	750,883	227,650
Share-based payments	12,15	710,251	147,001
Travel and accommodation		33,651	-
		(2,000,805)	(921,889)
		(1,988,516)	(921,889)
Gain (loss) on investments	5,6	70,836	-
Unrealized gain (loss) on marketable securities	5	(21,400)	(62,500)
Gain on settlement of accounts payable	9	343,666	63,529
Write-off of due from related party	12	(215,799)	-
Write-off of due to related party	12	86,992	-
Write-off of exploration and evaluation assets	8	(674,747)	(4,245,676)
Write-off of exploration and evaluation advances	8	-	(49,728)
<b>Loss for the year</b>		(2,398,968)	(5,216,264)
<b>Other comprehensive loss</b>			
Unrealized gain (loss) on investments	6	(20,556)	20,556
<b>Loss and comprehensive loss for the year</b>		\$ (2,419,524)	\$ (5,195,708)
<b>Basic and diluted loss per share</b>		\$ (0.02)	\$ (0.04)
<b>Weighted average number of shares outstanding</b>		150,707,541	141,067,642

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

**SATURN OIL & GAS INC.**  
**STATEMENTS OF CASH FLOWS**  
**(EXPRESSED IN CANADIAN DOLLARS)**  
**YEARS ENDED DECEMBER 31,**

	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (2,398,968)	\$ (5,216,264)
Items not affecting cash:		
Amortization	4,437	-
Accretion on asset retirement obligation	5,036	-
Depletion	114,021	-
Share-based payments	710,250	147,001
Gain on settlement of accounts payable	(343,666)	(63,529)
Write-off of due from related party	215,799	-
Write-off of due to related party	(86,992)	-
Write-off of exploration and evaluation assets	674,747	4,245,676
Write-off of exploration and evaluation advances	-	49,728
Unrealized gain on available for sale investments taken to AOCI	(20,566)	-
Realized gain on available for sale investment	(47,403)	-
Unrealized loss on marketable securities	21,400	62,500
Realized gain on marketable securities	(4,701)	-
Foreign exchange loss (gain) on investments	-	19,493
Accretion on convertible debt	41,041	-
Accrued interest on promissory note	10,777	-
Changes in non-cash working capital items:		
Decrease (increase) in accounts receivable	(389,314)	21,112
Decrease (increase) in due from/to related parties	321,020	(122,370)
Decrease (increase) in prepaid expenses	3,826	19,203
Increase (decrease) in accounts payable and accrued liabilities	1,319,268	92,848
Net cash provided by (used in) operating activities	150,012	(745,502)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares for cash	1,077,304	495,000
Share issuance costs	(69,241)	(32,925)
Shares subscribed	-	325,035
Repayment of promissory note	(160,000)	-
Proceeds from promissory note	200,000	100,000
Proceeds from convertible note	3,500,000	-
Exercise of warrants	-	902,500
Net cash provided by financing activities	4,548,063	1,789,610
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Deposits	(37,786)	-
Proceeds from sale of marketable securities	20,901	-
Proceeds from sale of available for sale investments	140,747	-
Environmental deposit	(285,149)	-
Additions to property, plant and equipment	(28,999)	-
Additions to exploration and evaluation assets	(3,951,267)	(1,626,314)
Net cash used in investing activities	(4,141,553)	(1,626,314)
<b>Change in cash</b>	<b>556,522</b>	<b>(582,206)</b>
<b>Cash, beginning of year</b>	<b>190,719</b>	<b>772,925</b>
<b>Cash, end of year</b>	<b>\$ 747,241</b>	<b>\$ 190,719</b>

**Supplemental disclosure with respect to cash flows (Note 17)**

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

**SATURN OIL & GAS INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)**  
**(EXPRESSED IN CANADIAN DOLLARS)**

	Number of Shares	Share Capital	Share-based Payment Reserves	Warrant Reserves	Convertible Debt	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance as at December 31, 2015</b>	<b>134,360,219</b>	<b>\$ 19,713,942</b>	<b>\$ 5,155,887</b>	<b>\$ 36,287</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (22,062,751)</b>	<b>\$ 2,843,365</b>
Private placements	5,500,000	495,000	-	-	-	-	-	-	495,000
Share issuance costs	-	(32,925)	-	-	-	-	-	-	(32,925)
Shares subscribed	-	-	-	-	-	325,035	-	-	325,035
Warrants exercised	5,350,000	902,500	-	-	-	-	-	-	902,500
Share based payments	-	-	147,001	-	-	-	-	-	147,001
Unrealized gain on available-for sale investments	-	-	-	-	-	-	20,566	-	20,566
Loss for the year	-	-	-	-	-	-	-	(5,216,264)	(5,216,264)
<b>Balance as at December 31, 2016</b>	<b>145,210,219</b>	<b>\$ 21,078,517</b>	<b>\$ 5,302,888</b>	<b>\$ 36,287</b>	<b>\$ -</b>	<b>\$ 325,035</b>	<b>\$ 20,566</b>	<b>\$ (27,279,015)</b>	<b>\$ (515,722)</b>
Private placements, cash	14,543,738	1,402,339	-	-	-	(325,035)	-	-	1,077,304
Private placements, shares for debt	1,820,206	145,616	-	-	-	-	-	-	145,616
Share issuance costs	-	(69,241)	-	-	-	-	-	-	(69,241)
Share-based payments	-	-	710,250	-	-	-	-	-	710,250
Contributed capital on convertible debt	-	-	-	-	314,692	-	-	-	314,692
Unrealized gain on available-for- sale investments	-	-	-	-	-	-	(20,566)	-	(20,566)
Loss for the year	-	-	-	-	-	-	-	(2,398,968)	(2,398,968)
<b>Balance as at December 31, 2017</b>	<b>161,574,163</b>	<b>\$ 22,557,231</b>	<b>\$ 6,013,138</b>	<b>\$ 36,287</b>	<b>\$ 314,692</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (29,677,983)</b>	<b>\$ (756,635)</b>

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

**SATURN OIL & GAS INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2017  
(EXPRESSED IN CANADIAN DOLLARS)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

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

The Company's corporate headquarters are at 101-3239 Faithful Ave, Saskatoon, Saskatchewan, S7K 8H4. Effective May 3, 2004, the common shares of the Company were listed on the TSX Venture Exchange ("TSXV") and trade under the symbol "SMI".

*Going concern of operations*

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at December 31, 2017, the Company has a significant accumulated deficit and a shareholders' deficiency balance.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In addition, management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur. The Company is in production as of quarter one of fiscal year 2018.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

**2. BASIS OF PREPARATION**

**Statement of compliance**

These financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of December 31, 2017.

**Basis of presentation**

The financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss and available-for-sale, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars, which is the Company's functional currency, unless otherwise specified.



**SATURN OIL & GAS INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2017  
(EXPRESSED IN CANADIAN DOLLARS)

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**2. BASIS OF PREPARATION (cont'd)**

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

*Critical accounting judgments*

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

- a) Going concern of operations; and
- b) Determination of categories of financial assets and liabilities.

**SATURN OIL & GAS INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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(EXPRESSED IN CANADIAN DOLLARS)

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**2. BASIS OF PREPARATION (cont'd)**

*Critical accounting judgments (cont'd)*

c) Petroleum and natural gas properties, exploration and evaluation assets and other corporate assets are aggregated into cash-generating-units (“CGUs”) based on their ability to generate largely independent cash flows and are used for impairment testing. The determination of the Company’s CGUs is subject to management’s judgment.

d) The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management’s determination of an area’s technical feasibility and commercial viability based partially on proved and probable reserves.

**3. SIGNIFICANT ACCOUNTING POLICIES**

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

**Property, plant and equipment**

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

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

Oil and development and production assets

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

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

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

Other assets

Other capital assets are recorded at cost and are amortized using the declining balance method. On acquisitions during the year, amortization is calculated at one-half the annual rate. Annual amortization rates are as follows:

Computer hardware	55%
Furniture and equipment	20%

**SATURN OIL & GAS INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Property, plant and equipment (cont'd)**

Impairment of non-current assets

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

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

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

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

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

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

**Exploration and evaluation assets**

*Pre-exploration costs*

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

*Exploration and evaluation expenditures*

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

**SATURN OIL & GAS INC.**  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Exploration and evaluation assets (cont'd)**

*Exploration and evaluation expenditures (cont'd)*

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

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

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.

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

**Rehabilitation provision**

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

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

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

**Farm-in and farm out arrangements**

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

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Share-based payments**

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

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

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

**Warrants issued in equity financing transactions**

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

**SATURN OIL & GAS INC.**  
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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded by providing for temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recorded.

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

**Earnings (loss) per share**

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

**Revenue**

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the customer, the sales price and costs can be measured reliably, and it is probable that the economic benefits will flow to the Company. These criteria are generally met at the time the crude oil is shipped, delivered to the customer, title and risk have passed to the customer and acceptance of the product, when contractually required, has been obtained.

**Comprehensive income**

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

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Financial instruments**

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

*Financial assets at fair value through profit or loss ("FVTPL")*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

*Held-to-maturity ("HTM")*

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss.

*Available-for-sale ("AFS")*

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from shareholder's equity and recognized in profit or loss. Subsequent reversals of impairment is recognized as equity. The Company has classified its financial assets as follows:

- Cash and marketable securities are classified as FVTPL.
- Investments are classified as AFS.
- Due from related parties are classified as loans and receivables.
- Permit deposits are classified as HTM.

*Financial liabilities*

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss;
- Other financial liabilities.

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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Loans and receivables (cont'd)**

*Fair value through profit or loss*

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Other financial liabilities*

This category includes amounts due to related parties, accounts payable, promissory note and convertible notes, all of which are recognized at amortized cost.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

**Financial instruments**

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.



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**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**New accounting standards and interpretation**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective.

Effective (proposed) for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The Company expects the above standards to have little effect on its financial statements other than increased disclosure.

IFRS 16 – Leases. According to IFRS 16, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard.

**4. AMOUNTS RECEIVABLE**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Accounts receivable	\$ 271,429	\$ -
GST receivable	132,267	14,382
	<b>\$ 403,696</b>	<b>\$ 14,382</b>

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**5. MARKETABLE SECURITIES**

	Shares
Balance, December 31, 2015	\$ 122,500
Change in fair value	(62,500)
Balance, December 31, 2016	60,000
Reduction on disposition of shares	(16,200)
Change in fair value	(21,400)
Balance, December 31, 2017	\$ 22,400

During the year ended December 31, 2015, the Company received 500,000 shares of Glacier Lake Resources Inc. (formerly Killdeer Minerals Inc.), a company related through common officers and directors for settlement of \$37,500 of debt. During year ended December 31, 2017 the Company disposed of 180,000 shares for a realized gain of \$4,701. Unrealized gains and losses on market fluctuations for the shares are recognized in profit or loss.

**6. INVESTMENTS**

	December 31, 2017	December 31, 2016
Global Resources Investment Trust – cost	\$ 1,300,000	\$ 1,300,000
Fair value adjustment	(1,196,194)	(1,196,294)
Cumulative foreign exchange gain (loss) associated with fair value adjustment	(10,362)	(10,362)
Reduction on disposition of shares	(93,344)	-
	\$ -	\$ 93,344

During the year ended December 31, 2014, the Company acquired 704,301 shares of Global Resources Investment Trust (“GRIT”) valued at £1.00 each, in consideration for 10,000,000 units of the Company valued at \$0.13 each. The GRIT shares trade through the facilities of the London Stock Exchange. Each unit consists of one common share and one-half common share purchase warrant exercisable at \$0.17 per share for two years.

On acquisition, the GRIT shares were valued at \$1,300,000. The GRIT shares have been designated as available-for-sale and are recorded at fair value. Fair value is determined by reference to the last bid price at the date of the statement of financial position. At December 31, 2015, the Company impaired the GRIT shares as a result of the significant and prolonged decline in fair value and \$1,216,860 was transferred from OCI to profit or loss. During the year ended December 31, 2017, the shares were sold for proceeds of \$140,747, reducing OCI by \$20,556 to \$NIL with a gain of \$66,135 recognized in profit or loss.

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**7. PROPERTY, PLANT AND EQUIPMENT**

	Producing assets	Other assets	Total
<b>Cost:</b>			
Balance, December 31, 2016	\$ -	\$ -	\$ -
Additions	-	28,999	28,999
Asset retirement obligation	263,837	-	263,837
Transfer from E&E (note 8)	2,092,636	-	2,092,636
Balance, December 31, 2017	\$ 2,356,473	\$ 28,999	\$ 2,385,472
<b>Accumulated amortization:</b>			
Balance, December 31, 2016	\$ -	\$ -	\$ -
Depletion	114,021	-	114,021
Amortization expense	-	4,437	4,437
Balance, December 31, 2017	\$ 114,021	\$ 4,437	\$ 118,458
<b>Balance, December 31, 2016</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Balance, December 31, 2017</b>	<b>\$ 2,242,452</b>	<b>\$ 24,562</b>	<b>\$ 2,267,014</b>

During the year ended December 31, 2017, the Company transferred \$2,092,636 from exploration and evaluation. The Company tested for impairment immediately preceding the transfer of exploration and evaluation assets to property, plant and equipment during the year ended December 31, 2017. The Company determined that there was no impairment during fiscal 2017.

On January 23, 2017, the Company executed a Purchase and Sale Agreement with Raven Cross Energy Ltd. whereby the Company acquired certain oil and gas assets in Lucky Hills near Kindersley, Saskatchewan. These lands were 100% working interest to Saturn with a 7% gross overriding royalty to Raven.

On July 1, 2017, the Company executed a Petroleum Freehold Lease Agreement with Canadian Natural Resources Limited whereby the Company acquired certain oil and gas assets near Flaxcombe, Saskatchewan.

On October 4, 2017 the Company acquired three sections of land in the Crown land sale near Flaxcombe, Saskatchewan. Saturn holds a 33.3% working interest in the three sections.

On October 5, 2017, the Company entered into an Asset Exchange Agreement with Teine Energy Ltd. whereby Saturn relinquished operatorship and a 50% working interest in one section of land, previously acquired from Raven Cross Energy Ltd. In consideration for the 50% working interest, Teine transferred to Saturn two sections of 100% working interest land near Flaxcombe, Saskatchewan.

On October 12, 2017, the Company entered into a Joint Operating Agreement with Westcore Energy Ltd. ("Westcore") whereby the parties have agreed to jointly operate certain adjacent land sections. The Agreement resulted in a unitization of the sections, with each of the parties contributing their portion of the sections at a value equal to the other's contribution. Costs of the jointly operated land sections will be funded by each party in proportion to their working interests, being 50% to each.

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**7. PROPERTY, PLANT AND EQUIPMENT (cont'd)**

On October 16, 2017, the Company entered into a Seismic and Farmout Agreement with Teine Heavy Oil Partnership ("Teine") whereby the Company will shoot 3D seismic on land near Flaxcombe, Saskatchewan. The Parties will then mutually agree upon a horizontal well location and Saturn will pay 100% of the drilling, completions and equipping costs to earn a 50% working in the well and 50% working interest in the remainder of the land.

On November 1, 2017, the Company executed a Petroleum Freehold Lease Agreement with Prairiesky Royalty Ltd whereby the Company acquired certain oil and gas assets near Flaxcombe, Saskatchewan.

On November 7, 2017, the Company completed the acquisition of one well from Westcore for \$10,150.

On December 5<sup>th</sup>, 2017, the Company acquired additional sections of land near Flaxcombe, Saskatchewan in the Crown land sale. Saturn holds 100% working interest in these sections.

See Note 8 for details on environmental deposit.

**8. EXPLORATION AND EVALUATION ASSETS**

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

a) Flaxcombe (Saskatchewan)

During the year ended December 31, 2017, the Company acquired and developed its 100% working interest in the Flaxcombe property.

b) Lucky Hills (Saskatchewan)

During the year ended December 31, 2017, the Company acquired the Lucky Hills oil property in the greater Kindersley area of Saskatchewan.

c) Overflowing (Saskatchewan)

During the year ended December 31, 2017, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of \$594,350.

d) Bannock Creek (Saskatchewan)

The Company acquired permits to develop its Bannock Creek project.

During the year ended December 31, 2016, the Company decided not to pursue the property and accordingly wrote off all related exploration and evaluation expenditures in the amount of \$4,245,676.

During the year ended December 31, 2017, the Company wrote off exploration and evaluation expenditures in the amount of \$42,933.

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**8. EXPLORATION AND EVALUATION ASSETS (cont'd)**

e) Gem (British Columbia)

The Company had acquired a 100% interest in the Apex 3 and 4 mineral claims located in the New Westminster Mining Division, British Columbia.

During the year ended December 31, 2017, the Company wrote off all exploration and evaluation expenditures in the amount of \$37,404.

**Saskatchewan Oil and Gas**

During the year ended December 31, 2017, the Company brought a total of three 100% working interest wells on-line on its Flaxcombe assets. On November 1, 2017, the Company brought online its 100% working interest vertical well in the Success Formation (121/11-18-029-26W3/03). On December 7, 2017, the Company drilled, completed, equipped and brought on-line two 100% working interest Viking horizontal wells (101/09-31-029-26W3/00 and 102/09-31-029-26W3/00).

As at December 31, 2017, the Company had an environmental deposit with the government of Saskatchewan of \$285,149 (2016 - \$Nil). The environmental deposit may be refunded upon completion of the required reclamation work or forfeited to the government to carry out the reclamation work required.

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**8. EXPLORATION AND EVALUATION ASSETS (cont'd)**

	Flaxcombe	Lucky Hills	Overflowing	Bannock Creek	Gem	Year ended December 31, 2017	Year ended December 31, 2016
Beginning balance	\$ -	\$ -	\$ 594,350	\$ -	\$ 37,404	\$ 631,754	\$ 2,090,379
Expenditures during the year:							
Acquisition costs and land rental	756,082	236,065	-	-	-	992,147	52,116
Assaying	-	-	-	-	-	-	4,635
Consulting	232,816	2,700	-	-	-	235,516	93,823
Drilling	822,541	-	-	38,993	-	861,534	2,311,097
Environmental	-	-	-	-	-	-	660
Field labour	-	-	-	-	-	-	3,719
Geology	6,678	250	-	4,000	-	10,928	68,822
Helicopter	-	-	-	-	-	-	25,537
Licensing	-	-	-	-	-	-	98,303
Surface preparation	28,538	24,083	-	-	-	52,621	6,740
Travel and accommodation	-	-	-	-	-	-	16,350
Well equipment	1,493,697	-	-	-	-	1,493,697	105,249
	3,340,352	263,098	-	42,993	-	3,646,443	2,787,051
Transfer to producing assets	(2,092,636)	-	-	-	-	(2,092,636)	-
Write-off of exploration and evaluation assets	-	-	(594,350)	(42,993)	(37,404)	(674,747)	(4,245,676)
Ending balance	\$ 1,247,716	\$ 263,098	\$ -	\$ -	\$ -	\$ 1,510,814	\$ 631,754

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Accounts payable	\$ 2,063,310	\$ 1,524,270
Accrued liabilities	81,656	35,000
Interest payable	49,657	4,575
	<u>\$ 2,194,623</u>	<u>\$ 1,563,845</u>

During the year ended December 31, 2017, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of \$343,666 (2016 - \$63,529).

**10. PROMISSORY NOTE**

During the year ended December 31, 2016, the Company received proceeds from a promissory note of \$100,000 from a third party. The promissory note bears an interest of 5% per annum and was payable on January 31, 2017.

During the year ended December 31, 2017, the Company received additional proceeds of \$200,000 from the third party. The promissory note is secured by the Company's marketable securities and investments.

During the year ended December 31, 2017, the Company repaid \$260,000 promissory note payable including accrued interest to the third party.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Balance, beginning of year	\$ 100,000	\$ -
Proceeds	200,000	100,000
Repayment	(265,616)	-
Interest	10,777	-
Balance, end of year	<u>\$ 45,161</u>	<u>\$ 100,000</u>

**11. CONVERTIBLE NOTE**

- a) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,000,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum and due May 15, 2018.

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

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

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder.

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**11. CONVERTIBLE NOTE (cont'd)**

- c) During the year ended December 31, 2017, the Company received proceeds in the amount of \$1,500,000 from a third party and issued a convertible note payable, bearing interest at 5% per annum and due November 30, 2020.

The principal portion, together with all applicable accrued but unpaid interest, of the note is convertible into common shares of the Company at a conversion price of \$0.15 per share, at the option of the holder.

	<b>Convertible note</b>
Balance, December 31, 2015	\$ -
Balance, December 31, 2016	-
Proceeds	3,500,000
Value of convertible feature	(314,692)
Accretion	41,041
Balance, December 31, 2017	3,226,349
Less: current portion	1,972,603
	<b>\$ 1,253,746</b>

**12. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2017, the Company incurred the following compensation with directors, officers and other key management personnel:

<b>Compensation</b>	<b>Years end December 31,</b>	
	<b>2017</b>	<b>2016</b>
Accounting	\$ 18,000	\$ 42,000
Consulting fees	99,395	-
Geological services recorded in exploration and evaluation assets	4,000	6,024
Legal fees	29,928	-
Management fees	750,883	227,650
Share-based payments	549,008	48,830
Total	<b>\$ 1,451,214</b>	<b>\$ 324,504</b>

As at December 31, 2017, the Company owed \$299,729 (2016 - \$93,001) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company. As at December 31, 2017, the Company advanced \$NIL (2016 - \$243,099) to an officer and director of the Company.

<b>Other related party transactions</b>	<b>Years end December 31,</b>	
	<b>2017</b>	<b>2016</b>
Issuance of shares for settlement of debt	40,000	-
Settlement of debt	86,992	-
Write-off of related party receivable	(215,799)	-
Total	<b>\$ (88,807)</b>	<b>\$ -</b>



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**13. ASSET RETIREMENT OBLIGATION**

	<b>Asset Retirement Obligation</b>
Balance, December 31, 2015	\$ -
Balance, December 31, 2016	-
Asset retirement obligation	263,837
Accretion	5,036
Balance, December 31, 2017	268,873

The asset retirement obligation is costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be \$263,837. These obligations have been discounted using a risk free rate of 2.18% and an inflation rate of 1.9% per year.

**14. FLOW-THROUGH SHARE PREMIUM LIABILITY**

During the year ended December 31, 2017, the Company issued Nil (2016 - 5,500,000) flow-through shares and estimated the value of the flow-through premium associated with those shares to be \$Nil (2016 - \$Nil). In all the years, the Company incurred all obligated expenditures on the flow-through shares.

**15. SHARE CAPITAL AND EQUITY RESERVES**

Authorized

Unlimited common shares without par value.

During the year ended December 31, 2017, the Company:

- a) Closed a private placement for 3,412,000 units at a price of \$0.15 per unit for a gross value of \$512,498 of which \$325,035 was received in fiscal 2016. Each whole unit consists of one common share and one half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.20 per share for a period of 18 months from the date of issue of the whole warrant.
- b) Closed private placement for 12,951,944 units at a price of \$0.08 per unit for a gross value of \$1,036,156 of which \$890,540 was received in cash and \$145,616 in exchange for debt. Each unit consists of one common share and one-half of a share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the warrant. The warrants are subject to an accelerated expiry clause. The Company paid \$69,242 of cash share issuance costs in relation to the private placement.

During the year ended December 31, 2016, the Company:

- a) Issued 5,350,000 common shares for proceeds of \$902,500 as a result of the exercise of warrants.

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**15. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

- b) Closed a flow-through private placement for 5,500,000 flow-through units at a price of \$0.09 per unit (the "FT Unit") for a gross value of \$495,000. Each FT Unit consists of one flow-through common share (the "FT Shares") and 0.3636 non flow-through share purchase warrants (the "FT Warrants"). Each FT Warrant will entitle the holder to purchase one additional non flow-through common share, exercisable at a price of \$0.15 per share for a period of 18 months from the date of issue of the FT Warrant. The FT Warrants are subject to an accelerated expiry clause. The Company paid \$32,925 of cash share issuance costs in relation to the private placement.

Share Purchase Warrants

Warrant transactions are summarized as follows:

	<b>Outstanding Warrants</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2015	20,042,827	\$ 0.22
Granted	1,999,800	0.15
Exercised	(5,350,000)	0.17
Expired	(10,107,827)	0.25
Balance, December 31, 2016	6,584,800	0.20
Granted	8,181,972	0.16
Expired	(4,585,000)	0.22
Balance, December 31, 2017	10,181,772	\$ 0.16

As at December 31, 2017, the following share purchase warrants were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Warrants</b>	<b>Exercise Price</b>
January 27, 2018*	1,999,800	\$ 0.15
January 10, 2019	6,475,972	\$ 0.15
June 18, 2019	1,706,000	\$ 0.20
	10,181,772	

\*expired subsequent to year end.

Stock Options The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 29,042,043 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company's stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest as to 25% on the date of grant and 12.5% at the end of every quarter after the grant date. Vesting is determined by the Board of Directors. A summary of changes of stock options outstanding is as follows:

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**15. SHARE CAPITAL AND EQUITY RESERVES (cont'd)**

	<b>Outstanding Options</b>	<b>Weighted Average Exercise Price</b>
Balance, December 31, 2015	15,530,000	\$ 0.18
Granted	500,000	0.15
Forfeited/expired	(3,856,000)	0.17
Balance, December 31, 2016	12,174,000	0.18
Granted	14,050,000	0.08
Forfeited/expired	(4,764,000)	0.18
Balance, December 31, 2017	21,460,000	\$ 0.12
Exercisable, December 31, 2017	13,928,750	\$ 0.13

As at December 31, 2017, the following options were issued and outstanding:

<b>Expiry Date</b>	<b>Outstanding Options</b>	<b>Exercise Price</b>
February 15, 2018*	3,935,000	\$ 0.15 - 0.20
January 22, 2019	1,450,000	\$ 0.15
February 24, 2020	525,000	\$ 0.20
May 7, 2020	1,000,000	\$ 0.20
January 29, 2021	500,000	\$ 0.15
April 18, 2022	10,000,000	\$ 0.08
August 28, 2022	4,050,000	\$ 0.09
	21,460,000	

\*Expired subsequent to year end.

During the year ended December 31, 2017, the Company granted 14,050,000 (2016 – 500,000) stock options with an initial fair market value of \$924,684 (2016 - \$41,166) or \$0.07 (2016 - \$0.08) per option. The Company expensed \$705,649 (2016 - \$37,440) to operations for the options granted and vesting during the year ended December 31, 2017 with the balance of \$4,602 (2016 - \$109,561) pertaining to the prior year's grants of stock options. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	<u>2017</u>	<u>2016</u>
Risk-free interest rate	1.19%	0.67%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	104.22%	109.74%

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**16. FINANCIAL INSTRUMENTS**

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

a) Capital management

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

The Company considers the items included in share capital as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or return capital to shareholders. As at December 31, 2017, the Company is not subject to externally imposed capital requirements.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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 is considered to be in the production stage on certain assets. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2017, the Company had \$747,241 (December 31, 2016 - \$190,719) in cash and \$4,512,116 (December 31, 2016 - \$1,756,846) in current liabilities. The Company is exposed to liquidity risk.

c) 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.

d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars.

e) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on its cash and permit deposits. There is a minimal risk that the Company would recognize any loss as a result of change in market interest rates.

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. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

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**16. FINANCIAL INSTRUMENTS (cont'd)**

g) Fair value

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

- Level 1* – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2* – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
- Level 3* – Inputs that are not based on observable market data.

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

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

**17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

- a) Reallocated \$2,092,636 from exploration and evaluation assets to property, plant and equipment.
- b) Included in property, plant, and equipment and exploration and evaluation assets is \$934,216 which relates to accounts payable and accrued liabilities.
- c) Equity portion of convertible debt of \$252,192.
- d) Shares issued for settlement of debt of \$145,616.
- e) Asset retirement obligation included in property, plant and equipment of \$263,837.

The Company's significant non-cash transactions during the year ended December 31, 2016 were as follows:

- a) Included in exploration and evaluation assets is \$1,239,040 which relates to accounts payable and accrued liabilities.
- b) Reallocated \$181,936 from exploration advances to exploration and evaluation assets.

The Company paid no interest or income tax for the years presented.

**18. CONTINGENCIES AND COMMITMENTS**

The agreement will continue indefinitely, subject to the termination notice given by either party.

The Company has entered into a sublease agreement for office space over the next three years with minimum payments as follows:

2018	\$ 102,302
2019	\$ 102,302
2020	\$ 25,575

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**19. INCOME TAXES**

a) The statutory tax rate for the year ended December 31, 2017 is 26%.

	<b>2017</b>	<b>2016</b>
Loss for the year before income taxes	\$ (2,398,968)	\$ (5,216,264)
Expected income tax recovery based on statutory rate	(624,000)	(1,356,000)
Adjustment to expected income tax benefit:		
Change in statutory tax rates and other	(136,000)	28,000
Permanent differences	179,000	46,000
Impact of flow-through shares	-	129,000
Share issue costs	(18,000)	(9,000)
Adjustment to prior years provisions versus statutory tax returns	84,000	(61,000)
Expiry of non-capital losses	-	116,000
Change in unrecognized deductible temporary differences	(515,000)	1,107,000
<b>Income tax provision (recover)</b>	<b>\$ -</b>	<b>\$ -</b>

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

	<b>2017</b>	<b>2016</b>
<b>Deferred tax assets (liabilities)</b>		
Exploration and evaluation assets	\$ 1,109,000	\$ 1,075,000
Share issue costs	37,000	35,000
Property and equipment	3,000	2,000
Marketable securities	-	154,000
Asset retirement obligation	73,000	-
Debt with accretion	(74,000)	-
Allowable capital losses	156,000	-
Non-capital losses available for future period	3,133,000	2,656,000
	<b>\$ 4,437,000</b>	<b>\$ 3,922,000</b>
Unrecognized deferred tax assets	(4,437,000)	(3,922,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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**19. INCOME TAXES (cont'd)**

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

	2017		2016	
<b>Temporary differences</b>				
Exploration and evaluation assets	3,503,000	No expiry	3,698,000	No expiry
Investment tax credit	223,000	2018 to 2037	154,000	2017 to 2036
Property and equipment	12,000	No expiry	7,000	No expiry
Share issue costs	138,000	2018 to 2021	135,000	2017 to 2020
Marketable securities	2,000	No expiry	1,184,000	No expiry
Asset retirement obligation	269,000	No expiry	-	No expiry
Allowable capital losses	576,000	No expiry	-	No expiry
Non-capital losses	11,330,000	2026 to 2037	10,216,000	2026 to 2036

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

**20. SEGMENTED INFORMATION**

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

**21. SUBSEQUENT EVENTS**

Subsequent to the year ended December 31, 2017, the Company:

- a) Granted 1,700,000 stock options with an exercise price of \$0.155 per common share to certain directors and key employees of the company. The options are exercisable until February 21, 2023, and vest over a period of 18 months from the date of grant.
- b) Issued a promissory note payable on the receipt of loan proceeds in the amount of \$2,750,000. The Corporation issued up to 859,375 warrants to the lender that can be exercised for up to 859,375 common shares.
- c) Received loan proceeds in the amount of \$1,250,000 due June 30, 2018 and repaid \$500,000 of the loan.
- d) Purchased additional PNG rights in the Whiteside area, Saskatchewan for \$200,000.