SATURN OIL + GAS INC.

SATURN OIL & GAS INC.

FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Canadian dollars)

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Independent Auditor's Report

To the Shareholders of Saturn Oil and Gas Inc.

Opinion

We have audited the financial statements of Saturn Oil and Gas Inc. (the "Entity"), which comprise the statements of financial position as at December 31, 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity (deficiency) and cashflows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note *1* in the financial statements, which indicates that the Entity incurred a net loss of $1,523,123 during the year ended December 31, 2018 and, as of that date, the Entity's current liabilities exceeded its total assets by $8,095,928. As stated in Note *1*, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

The financial statements of the Entity for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2018.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

BDO Canada LLP

Chartered Professional Accountants

Calgary, Alberta
April 30, 2019

SATURN OIL & GAS INC.

STATEMENTS OF FINANCIAL POSITION
For the Period Ended December 31, 2018
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

	Note	December 31 2018	December 31 2017
ASSETS			
Current			
Cash and cash equivalents		$ 140,722	$ 747,241
Amounts receivable	4	973,178	403,696
Marketable securities	5	32,000	22,400
Total current		1,145,901	1,173,337
Non-current			
Deposits and prepayments		206,878	41,786
Environmental deposit		-	285,149
Property, plant and equipment	6	25,043,606	2,267,014
Exploration and evaluation assets	7	3,547,016	1,510,814
Total non-current		28,797,501	4,104,763
Total assets		$ 29,943,401	$ 5,278,100
LIABILITIES AND SHAREHOLDERS' DEFICIENCY			
Current			
Accounts payable and accrued liabilities	8	$ 11,831,999	$ 2,194,623
Promissory note	9	762,370	45,161
Convertible note		-	1,972,603
Due to related parties		-	299,729
Total current		12,594,368	4,512,116
Non-current			
Asset retirement obligation	10	1,478,872	268,873
Convertible notes	11	2,332,659	1,253,746
Revolving notes	12	2,044,239	-
Warrant liability	13	3,397,334	
Total non-current		9,253,104	1,522,619
Total liabilities		$ 21,847,473	$ 6,034,735
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	15	31,781,840	22,557,231
Equity reserves	15	7,290,415	6,049,425
Contributed capital on convertible debt		224,780	314,692
Deficit		(31,201,106)	(29,677,983)
Total shareholders' equity (deficiency)		8,095,928	(756,635)
Total liabilities and shareholders' equity (deficiency)		$ 29,943,401	$ 5,278,100

Nature and Continuance of Operations (Note 1)
Contingencies and Commitments (Note 18)
Subsequent Events (Note 21)

Approved by the board of Directors on April 30, 2019

"John Jeffrey" — Director

"Scott Newman" — Director

SATURN OIL & GAS INC.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31,

	Note	2018	2017
OIL REVENUE		$ 4,522,563	$ 210,742
ROYALTIES		(465,370)	(41,656)
REVENUE NET OF ROYALTIES		4,057,193	169,086
EXPENSES			
Operating		$ 1,241,123	$ 47,812
Accounting and auditing	14	79,148	81,910
Administration, office and rent		203,379	96,100
Advertising, promotion and public relations		260,453	75,875
Amortization and depletion	6,7	1,954,383	118,458
Consulting	14	152,939	26,147
Filing fees		78,058	69,497
Insurance		37,683	25,009
Legal fees	14	65,237	25,077
Salaries and benefits	14	910,841	750,883
Share based compensation	14,15	941,391	710,251
Travel and accommodation		85,541	33,651
		(6,010,175)	(2,060,670)
		(1,952,982)	(1,891,584)
Gain (loss) on investments		-	70,836
Foreign exchange gain (loss)		(367,882)	-
Gain on settlement of accounts payable	8	194,093	343,666
Interest on long-term debt		(668,701)	(96,932)
Loan structuring costs	6	(487,251)	-
Write-off of due from related party	14	-	(215,799)
Write-off of due to related party	14	-	86,992
Write-off of exploration, evaluation and producing assets	7	-	(674,747)
Unrealized gain (loss) on marketable securities	5	9,600	(21,400)
Unrealized gain on warrant liability		1,750,000	-
Loss for the year		(1,523,123)	(2,398,968)
Other comprehensive loss			
Unrealized gain (loss) on investments		-	(20,556)
Loss and comprehensive loss for the period		$ (1,523,123)	$ (2,419,524)
Basic and diluted loss per share		$ (0.01)	$ (0.01)
Weighted average number of shares outstanding		182,606,251	150,707,541

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

	Number of Shares	Share Capital	Equity reserves	Convertible Debt	Shares Subscribed	Accumulated Other Comprehensive Loss	Deficit	Total
Balance as at December 31, 2016	**145,210,219**	**$ 21,078,517**	**$ 5,339,175**	**$ -**	**$ 325,035**	**$ 20,566**	**$ (27,279,015)**	**$ (515,722)**
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)
Balance as at December 31, 2017	**161,574,163**	**$ 22,557,231**	**$ 6,049,425**	**$ 314,692**	**$ -**	**$ -**	**$ (29,677,983)**	**$ (756,635)**
Private Placements, cash	51,139,499	7,701,936	334,777	-	-	-	-	8,036,713
Share issuance costs	-	(966,776)	-	-	-	-	-	(966,776)
Shares issued, exercised warrants	7,915,564	1,255,824	(4,033)	-	-	-	-	1,251,791
Shares issued, exercised stock options	300,000	88,645	(31,145)	-	-	-	-	57,500
Shares issued, converted note	7,033,789	1,144,980	-	(89,912)	-	-	-	1,055,068
Share-based payments	-	-	941,391	-	-	-	-	941,391
Loss for the year	-	-	-	-	-	-	(1,523,123)	(1,523,123)
Balance as at December 31, 2018	**227,963,015**	**$ 31,781,840**	**$ 7,290,415**	**$ 224,780**	**$ -**	**$ -**	**$ (31,201,106)**	**$ 8,095,928**

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,523,123)	$ (2,398,968)
Items not affecting cash:		
Unrealized gain on warrant liability	(1,750,000)	-
Amortization and depletion	1,954,383	118,458
Accretion on asset retirement obligation	9,768	5,036
Share-based payments	941,391	710,250
Write-off of due to/from related parties	-	128,807
Write-off of exploration and evaluation and producing assets	-	674,747
Gain on settlement of accounts payable	(194,093)	(343,666)
Unrealized loss (gain) on marketable securities	(9,600)	21,400
Realized gain on marketable securities	-	(4,701)
Loan structuring cost	487,251	41,041
Accrued interest on promissory note	110,309	10,777
Changes in non-cash working capital items:		
Accounts receivable	(569,482)	(389,314)
Unrealized gain on available for sale investments taken to AOCI	-	(20,566)
Realized gain on available for sale investment	-	(47,403)
Prepaid expenses	-	3,826
Accounts payable and accrued liabilities	400,237	1,319,268
Net cash used in operating activities	(142,960)	(171,008)
CASH FLOWS FROM FINANCING ACTIVITIES		
Due to/from related parties	(299,729)	321,020
Private placement	8,036,713	1,077,304
Share issuance costs	(966,776)	(69,241)
Proceeds from stock options exercised	57,500	-
Proceeds from warrants exercised	1,251,791	-
Proceeds from promissory note	3,500,000	200,000
Repayment of promissory note	(2,893,100)	(160,000)
Proceeds from convertible note	-	3,500,000
Promissory note closing costs	(380,941)	
Proceeds from revolving note	8,139,542	-
Revolving note closing costs	(822,604)	-
Repayment of revolving note	(125,366)	-
Net cash provided by financing activities	15,497,029	4,869,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposit	(165,092)	(37,786)
Proceeds from sale of marketable securities	-	20,901
Proceeds from sale of available for sale investments	-	140,747
Environmental deposit	285,149	(285,149)
Additions to property, plant and equipment	(14,044,444)	(28,999)
Additions to exploration and evaluation assets	(2,036,202)	(3,951,267)
Net cash used in investing activities	(15,960,589)	(4,141,553)
Change in cash	(606,519)	556,522
Cash, beginning of period	747,241	190,719
Cash, end of period	$ 140,722	$ 747,241

1. NATURE AND CONTINUANCE OF OPERATIONS

Saturn Oil & Gas Inc. (“Saturn” or the “Company”) was incorporated under the Laws of British Columbia on August 16, 2001. The Company is in the business of acquiring, exploring, evaluating and developing economically viable energy and resource deposits in Canada. The Company’s current focus is to advance the exploration of its oil & 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 “SOIL”.

Going concern of operations

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations. As at December 31, 2018, the Company had a net loss of $1,523,123 (2017 - $2,419,524) and an accumulated deficit of $31,201,106 (2017 - $29,677,983).

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

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

2. BASIS OF PREPARATION

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on April 30, 2019.

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.

Functional and presentation currency

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

Use of estimates

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

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

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

a) The recoverability of 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 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; 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:

a) Going concern of operations;

b) Determination of categories of financial assets and liabilities;

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

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.

Joint Arrangements

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

Revenue

Current year

The Company adopted IFRS 15, Revenue from Contracts with Customers, as of January 1, 2018. The adoption of IFRS 15 did not have a material effect on the financial statements. Comparative figures did not require restatement as a result of this adoption.

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

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

Step in Model	Petroleum and Natural Gas Sales
Identify the Contract	The contractual arrangement executed with the customers, specifying the quantity and market price.
Identify distinct performance obligations	Single performance obligation to provide crude oil and gas to the customers.
Estimate transaction price	Transaction price is based on current commodity market prices.
Allocate transaction price to performance obligations	Total revenue is allocated to the single performance obligation.
Recognize revenue as performance obligations are satisfied	Revenue to be recognized at a point in time once control passes to the customers (i.e. when product is delivered).

Comparative period

Revenue from the sale of crude oil is measured per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The Company satisfies performance obligations and the customer obtains control upon the delivery of crude oil which is generally at a point in time.

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

Property, plant and equipment

Property, plant and equipment (“PPE”) include the costs of development and production that are not evaluation and exploration (“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%
Computer software	100%
Furniture and equipment	20%

Impairment of non-current assets

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

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

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

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

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

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

Exploration and evaluation assets

Pre-exploration costs

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

Exploration and evaluation expenditures

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

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

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.

Decommissioning Liabilities

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

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

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

Farm-in and farm out arrangements

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

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.

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.

Comprehensive income

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

Foreign Currency

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

Financial instruments

The Company adopted IFRS 9 effective January 1, 2018. IFRS 9 replaces IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model.

The adoption of this standard has no material impact on the Company's financial statements on the date of adoption, or for comparative periods. There was no change in the carrying amounts recognized under IAS 39, despite the new measurement categories stipulated under IFRS 9. The Company has applied IFRS 9 retrospectively, without restatement.

Financial assets

In 2018 financial assets were initially recorded at fair value and are designated into one of the following three categories: amortized cost, fair value through profit or loss, or fair value through other comprehensive loss.

These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows that are solely the payments of principal and interest. These assets are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issues, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. This applies to financial assets measured at amortized cost. Under IFRS 9, credit losses are recognized in general, earlier than under IAS 39.

Under IAS 39, accounts receivable would first be provisioned for when it is deemed that the collection is unlikely. Upon adoption of IFRS 9 the Company measures the loss allowance at an amount equal to the lifetime ECL that results from possible default events over the expected life of accounts receivables and unbilled service revenue.

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

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

At December 31, 2017 financial assets (Cash and cash equivalents and amounts receivable) were initially recorded at fair value and were subsequently measured at amortized cost.

Financial liabilities

The Company classifies its financial instruments as other financial liabilities, with the exception of derivative financial liabilities.

This category includes amounts due to related parties, accounts payable, promissory note and convertible notes, all of which were initially recognized at fair value and were subsequently measured at amortized cost.

The Company has classified its derivative financial liabilities upon initial recognition at fair value through profit or loss. A financial liability is derecognized when its contractual obligations are discharged, cancelled, or expire.

At December 31, 2017 financial liabilities (Accounts payable and accrued liabilities and due to shareholders) were initially recorded at fair value and were subsequently measured as amortized cost.

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial assets are tested for impairment on an individual basis. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the original effective interest rate. All impairment losses are recognized in net income or loss. An impairment loss is reversed when there is objective evidence that the value of the financial asset has been partially or fully restored. For financial assets measured at amortized cost the reversal is recognized in net income or loss.

New accounting standards and interpretation

Newly Adopted Accounting Policies

IFRS 15, "Revenue from Contracts with Customers" was adopted on January 1, 2018. Saturn used the modified retrospective adoption approach to adopt the new standard. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive when control is transferred to the purchaser. The Corporation reviewed its revenue contracts with customers using the IFRS 15 five-step model. The adoption of IFRS 15 did not result in any adjustments to opening retained earnings and did not impact the Corporation's net income (loss) and financial position for the year ended December 31, 2017.

(EXPRESSED IN CANADIAN DOLLARS)

IFRS 9, "Financial Instruments" was retrospectively adopted on January 1, 2018. There were no adjustments to opening retained earnings and no adjustments to the amounts recognized in Saturn's Financial Statements for the year ended December 31, 2017. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI"); or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Impairment of financial assets: IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost, and contract assets and debt investments at FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The following table summarizes the measurement categories of Saturn's financial instruments under IAS 39 and IFRS 9:

Financial Instrument	**IAS 39**	**IFRS 9**
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Marketable securities	FVTPL	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Promissory notes	Other financial liabilities	Amortized cost
Convertible debentures	Other financial liabilities	Amortized cost
Warrants derivative	FVTPL	FVTPL
Due to related parties	Other financial liabilities	Amortized cost
Revolving notes	Other financial liabilities	Amortized cost

Future Changes in Accounting Policies

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 standard is required to be adopted either retrospectively or using a modified retrospective approach. IFRS 16 will be applied by Saturn on January 1, 2019. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of applying the standard to prior periods as an adjustment to opening retained earnings.

The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach and applying certain practical expedients available upon transition. Saturn intends to apply a practical expedient that allows the Company to apply a recognition exemption for leases with remaining lease terms of less than 12 months and leases of low value on the transition date. The payments of these leases will be disclosed in the notes to the financial statements. The Company also intends to apply a practical expedient which allows the right-of-use asset recognized on transition to equal the lease liability recorded versus recognizing the carrying amount of the right-of-use asset as if IFRS 16 had been applied since the commencement date of the lease. This practical expedient is available on a lease by lease basis and Saturn intends to apply it to leases that are not individually significant. In addition, any provision for onerous contracts previously recognized will be applied to the associated right-of-use asset recognized upon transition to IFRS 16 on transition date. In these cases, there will be no impairment assessment made under IAS 36 – Impairment of assets.

The Company is in the process of quantifying the impact of the contracts that falls within the scope of the new standard. The Company expects adjustments for its processing facility lease, office leases and the related subleases and certain vehicle leases; however, the full extent of the impact has not yet been finalized.

(EXPRESSED IN CANADIAN DOLLARS)

4. AMOUNTS RECEIVABLE

	December 31, 2018	December 31, 2017
Accounts receivable	$ 402,589	$ 271,429
GST receivable	570,589	132,267
	$ 973,178	$ 403,696

5. MARKETABLE SECURITIES

	Shares
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
Change in fair value	9,600
Balance, September 30, 2018	$ 32,000

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. PROPERTY, PLANT AND EQUIPMENT

	Producing assets	Other assets	Total
Cost:			
Balance, December 31, 2016	$ -	$ -	$ -
Additions	2,092,636	28,999	2,121,635
Asset retirement obligation	263,837	-	263,837
Balance, December 31, 2017	2,356,473	28,999	2,385,472
Additions	23,441,283	89,461	23,530,744
Asset retirement obligation	1,200,231		1,200,231
Balance, December 31, 2018	$ 26,997,987	$ 118,460	$ 27,116,447
Accumulated amortization:			
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
Depletion	1,933,230	-	1,933,230
Amortization expense	-	21,153	21,153
Balance, December 31, 2018	$ 2,047,251	$ 25,590	$ 2,072,841
Balance, December 31, 2017	$ 2,242,452	$ 24,562	$ 2,267,014
Balance, December 31, 2018	$ 24,950,736	$ 92,870	$ 25,043,606

(EXPRESSED IN CANADIAN DOLLARS)

As at December 31, 2018, an estimated $84,500,000 in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion.

7. EXPLORATION AND EVALUATION ASSETS

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

	Year ended December 31, 2018	Year ended December 31, 2017
Beginning balance	$ 1,510,814	$ 631,754
Additions	2,036,202	1,553,807
Write-off of exploration and evaluation assets	-	(674,747)
Ending balance	$ 3,547,016	$ 1,510,814

During the year ended December 31, 2018, Saturn capitalized $211,905 (2017 – a nominal amount) of directly attributable general administrative expenses to E&E assets.

During the year ended December 31, 2018, Saturn wrote off nil (2017 - $674,747) of exploration and evaluation assets due to impairment. During the year ended December 31, 2017, the Company determined that there were indicators of impairment and tested the cash-generating unit for impairment. The indicators observed include that certain individual undeveloped leases have expired.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Accounts payable	$ 11,654,940	$ 2,063,310
Accrued liabilities	18,018	81,656
Interest payable	159,041	49,657
	$ 11,831,999	$ 2,194,623

During the year ended December 31, 2018, the Company settled certain accounts payable with its suppliers and accordingly recorded a gain on settlement of accounts payable of $194,093 (December 31, 2017 - $343,666).

9. 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 is unsecured 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 $265,616 promissory note payable including accrued interest to the third party.

During the year ended December 31, 2018, the Company received proceeds from promissory notes in the amount of $750,000 from the third party. The promissory note is unsecured, bears an interest of 2% per annum and is payable on demand.

(EXPRESSED IN CANADIAN DOLLARS)

During the year ended December 31, 2018, the Company received proceeds from promissory notes in the amount of $2,750,000 from a third party bearing interest at 17.5% per annum. The promissory note was repaid in full during the year. The Company issued 859,375 warrants related to the promissory note which were allocated a value of $nil as the promissory note was issued at a market rate.

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 45,161	$ 100,000
Proceeds	3,500,000	200,000
Repayment	(2,893,100)	(265,616)
Interest	110,309	10,777
Balance, end of period	$ 762,370	$ 45,161

10. ASSET RETIREMENT OBLIGATION

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 268,873	$ -
Additions	1,200,231	263,837
Accretion	9,768	5,036
Balance, end of year	$ 1,478,872	$ 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 $1,464,068 (2017 - $263,867). These obligations have been discounted using a risk free rate between 1.24% to 2.58% (2017 – 2.18%) and an inflation rate of 1.7% per year (2017 – 1.9%).

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.

   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.

   Assumptions used in determining the equity portion of the convertible note were a term of one year and a interest rate of 12% if there were no conversion rights.

   On May 15, 2018, the convertible note was amended to extend the maturity date, including the conversion term, from May 15, 2018 to January 31, 2020. The other terms of the convertible note remained unchanged. The assumptions used in determining the liability portion of the extended convertible note were a term of 1.7 years and an interest rate of 15% if there were no conversion rights. The assumptions used in determining equity component were an exercise price of $0.10, a term of 1.7 years, a risk free rate of 1.88%, a volatility of 85% and dividend yield of Nil. This resulted in a value of $660,000 that was recognized in the statement of equity. The settlement of the original equity component the statement of equity was reduced by $660,000, for net impact of Nil. The settlement of the original liability component resulted in a nominal gain.

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.

(EXPRESSED IN CANADIAN DOLLARS)

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

Assumptions used in determining the equity portion of the convertible note were a term of one year and a interest rate of 12% if there were no conversion rights.

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.

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.

Assumptions used in determining the equity portion of the convertible note were a term of three years and a interest rate of 12% if there were no conversion rights.

	December 31, 2018	December 31, 2017
Balance, beginning of year	$ 3,226,349	$ -
Proceeds	-	3,500,000
Converted to shares	(1,000,000)	-
Value of convertible feature	-	(314,692)
Accretion	106,310	41,041
Balance, end of year	$ 2,332,659	3,226,349
Less: current portion	-	1,972,603
Balance, end of period	$ 2,332,659	1,253,746

12. REVOLVING FACILITY

	December 31, 2018	December 31, 2017
Prudential Capital Energy Partners, L.P.	$ 7,336,038	$ -
Prudential Capital Energy Partners Management Fund	678,139	-
Loan financing costs	(5,969,938)	-
	$ 2,044,239	$ -

On September 14, 2018, the Company entered into a US $20 million secured reserves based revolving note facility ("Revolving Facility") from Prudential Capital Energy Partners, L.P. and Prudential Capital Energy Partners Management Fund. As at December 31, 2018, the Company has drawn US$5.9 million (CDN$8.0 million equivalent using the December 31, 2018 exchange rate) 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.

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 December 31, 2018, $822,604 of deferred loan financing costs related to the revolving facility were netted against its carrying value. The Company also issued 30,505,122 warrants related to the revolving facility. These were determined to be derivatives and have been recognized as a liability as the warrant holder has the option to exercise without providing cash and it receives the number of shares based on the Company share price at the exercise date. The warrants have been recognized as part of loan financing costs and corresponding amount has been included in warrant liability and was determined have a fair value of $5,147,334 at inception using the Black Scholes model and the assumptions noted below. At year-end this resulted in a $1,750,000 reduction of the warrant liability and a corresponding gain recognized in the profit or loss. The warrants were valued using a Black Scholes model based on the following assumptions at inception and year-end: exercise prices of $0.24, share price of $0.25 at inception and $0.19 at year-end, terms of maturity date of September 15, 2022, volatility of 94%, dividend yield of nil and risk-free interest rates of 1.88% at inception and 2.23% at year-end. At December 31, 2018, $64,730 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 (at December 31, 2018 the previous two quarters multiplied by two) 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 (at December 31, the previous two quarters multiplied by two) 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.

(EXPRESSED IN CANADIAN DOLLARS)

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

The Company was in breach of the total leverage ratio at December 31, 2018 and has obtained a waiver for this breach. The Company has obtained waivers for the quarters ending March 31, 2019 and June 30, 2019 and has projected to be onside after this period.

13. WARRANT LIABILITY

	December 31, 2018	December 31, 2017
Beginning balance	$ -	$ -
Additions	5,147,334	-
Change in fair value	(1,750,000)	-
	$ 3,397,334	$ -

14. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2018, the Company incurred the following transactions with directors, officers and other key management personnel:

Compensation	Years ended December 31, 2018	2017
Accounting	$ -	$ 18,000
Consulting and geological in exploration and evaluation assets	316,813	4,000
Consulting expense	18,675	99,395
Key management compensation	893,333	750,883
Legal fees	52,984	29,928
Legal fees in loan structuring costs	5,733	-
Legal fees in share issuance costs	101,886	-
Share based payments	813,600	549,008
Total	$ 2,203,024	$ 1,451,214

As at December 31, 2018, the Company owed $268,954 (December 31, 2017 - $299,729) to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company.

Other related party transactions	Years ended December 31, 2018	2017
Issuance of shares for settlement of debt	$ -	$ 40,000
Settlement of debt	-	86,992
Write-off of related party receivable	-	(215,799)
Total	$ -	$ (88,807)

15. SHARE CAPITAL AND EQUITY RESERVES

Authorized

Unlimited common shares without par value.

During the year ended December 31, 2018, the Company:

a) Closed a brokered private placement of flow-through common shares (the "Flow-Through Shares") and brokered non-flow-through units (the "Units"). The private placement consisted in the aggregate of 8,333,333 Flow-Through Shares at a price of $0.24 per Flow-Through Share and 8,333,333 Units at a price of $0.24 per Unit, for total gross proceeds of $4 million (the "Private Placement"). Each Unit consists of one common share (a "Common Share") of the Company and one-half of a common share purchase warrant (a "Warrant") exercisable into one Common Share of the Company at a price of $0.30 per Warrant for a period of 24 months. The Company issued 1,633,332 broker warrants related to the private placement which have been recognized as share issue costs.

b) Closed a brokered private placement of flow-through common shares (the "Flow-Through Shares") and both brokered and non-brokered non-flow-through units (the "Units"). The private placement consisted in the aggregate of 7,786,700 Flow-Through Shares at a price of $0.12 per Flow-Through Share and 25,852,800 Units at a price of $0.12 per Unit, for total gross proceeds of $4.04 million (the "Private Placement"). Each Unit consists of one common share (a "Common Share") of the Company and one common share purchase warrant (a "Warrant") exercisable into one Common Share of the Company at a price of $0.18 per Warrant for a period of 24 months. The Company issued 1,627,947 broker warrants related to the private placement which have been recognized as share issue costs.

c) Issued 7,915,564 shares on exercised warrants at a weighted average price of $0.16 per warrant.

d) Issued 300,000 shares on exercised stock options at a weighted average price of $0.19 per option.

e) Issued 6,666,667 shares on the conversion of a note payable plus 367,123 to settle accrued interest at a price of $0.15 per share.

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.

(EXPRESSED IN CANADIAN DOLLARS)

Share Purchase Warrants

Warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price
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
Granted	64,645,242	0.21
Exercised	(7,915,564)	0.16
Expired	(2,449,800)	0.16
Balance, December 31, 2018	64,461,650	$ 0.21

As at December 31, 2018, the following share purchase warrants were issued and outstanding:

Expiry Date	Outstanding Warrants	Exercise Price
May 11, 2019	859,375	$ 0.15
June 7, 2020	11,123,500	$ 0.18
July 3, 2020	2,047,270	$ 0.18
July 18, 2020	12,562,634	$ 0.18
July 18, 2020	1,563,751	$ 0.12
November 16, 2020	4,583,332	$ 0.30
September 14, 2022	30,505,122	$ 0.24
November 16, 2022	1,216,666	$ 0.24
	64,461,650	

During the year ended December 31, 2018, the Company issued 64,645,242 (2017 – 8,181,972) warrants. The Company issued 859,375 warrants to promissory note holders (Note 9), which were allocated a value of $nil as the promissory note was deemed to be at a market rate. The Company also issued 30,505,122 warrants to revolving facility holders (Note 12), which were allocated a value of $nil as the revolving facility was deemed to be at a market rate. The Company issued 3,261,279 broker warrants related to the private placements (Note 15), which had an initial weighted average fair value of $0.10 per option. The Company issued 29,900,070 warrants related to the private placements. The broker warrants were valued based on the following assumptions: exercise prices of $0.15 to $0.30, terms of one to four years, volatility of 80% to 94%, and risk-free interest rates of 1.93% to 2.28%.

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 24,725,000 common shares of the Company. Under the plan, the exercise price of each option shall not be less than the discounted market price of the Company’s stock on the grant date. The options can be granted for a maximum term of 5 years. The options granted vest 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:

(EXPRESSED IN CANADIAN DOLLARS)

	Outstanding Options	Weighted Average Exercise Price
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
Granted	7,050,000	0.19
Exercised	(300,000)	0.19
Forfeited/expired	(3,935,000)	0.18
Balance, December 31, 2018	24,275,000	$ 0.13
Exercisable, December 31, 2018	19,943,750	$ 0.11

As at December 31, 2018, the following options were issued and outstanding:

Expiry Date	Outstanding Options	Exercise Price
January 22, 2019	1,400,000	$ 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
February 21, 2023	1,700,000	$ 0.16
September 17, 2023	4,700,000	$ 0.20
September 24, 2023	400,000	$ 0.22
	24,275,000	

During the year ended December 31, 2018, the Company granted 7,050,000 (2017 – 14,050,000) stock options with an initial fair market value of $1,198,680 (2017 - $924,684) or $0.19 (2017 - $0.07) per option. The Company expensed $966,776 (2017 - $705,649) to operations for the options vesting during the year ended December 31, 2018. The following weighted average assumptions were used for the Black-Scholes valuation of the stock options:

	2018	2017
Risk-free interest rate	2.23%	1.19%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	101.76%	104.22%

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, 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 year ended December 31, 2018.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company is considered to be in the exploration and evaluation stage. Thus, it is dependent on obtaining regular financings in order to continue its exploration and evaluation programs. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings. The Company's cash is invested in business accounts with quality financial institutions, is available on demand for the Company's programs, and is not invested in any asset backed commercial paper. As at December 31, 2018, the Company had $140,722 (December 31, 2017 - $747,241) in cash and cash equivalents and $12,594,368 (December 31, 2017 - $4,512,116) in current liabilities. The Company is exposed to liquidity risk.

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

The following are the expected maturities of its financial liabilities as at December 31, 2018:

	<1 Year	1-2 Years	>2 Years
Accounts payable and accrued liabilities	$ 12,594,368	$ -	$ -
Convertible notes	-	2,332,659	-
Revolving notes	-	-	6,351,573

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

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 $799,000 increase or decrease to the Company's net loss before tax (2017 – 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.

(EXPRESSED IN CANADIAN DOLLARS)

e) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Revolving 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 $19,000 in 2018 (2017 – nil) assuming all other variables remain constant.

f) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. The Company monitors commodity and equity prices to determine appropriate actions to be undertaken.

g) Fair value

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

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

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

The fair value of convertible notes and revolving notes are measured based on level 2 inputs of the fair value hierarchy.

Financial instrument	**Classification**	**Carrying Value $**	**Fair Value $**
Cash and cash equivalents	Amortized cost	$ 140,722	$ 140,722
Amounts receivable	Amortized cost	973,178	973,178
Accounts payable and accrued liabilities	Amortized cost	11,831,999	11,831,999
Promissory notes	Amortized cost	762,370	762,370
Convertible debentures	Amortized cost	2,332,659	1,832,000
Revolving notes	Amortized cost	2,044,239	2,044,239

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

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company's significant non-cash transactions during the year ended December 31, 2018 were as follows:

a) Included in property, plant, and equipment and exploration and evaluation assets is $9,486,300 which relates to accounts payable and accrued liabilities.

b) Shares issued on the conversion of notes payable $1,055,068.

c) Asset retirement obligation included in property, plant and equipment of $1,200,231.

The Company's significant non-cash transactions during the year ended December 31, 2017 were as follows:

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) During the year, $668,701 (2017 - $96,932) interest was paid.

f) Asset retirement obligation included in property, plant and equipment of $263,837.

The Company paid no income tax for the years presented. During the year ended December 31, 2018 the Company paid interest of $569,169 (2017 - $86,155).

18. CONTINGENCIES AND COMMITMENTS

The Company has entered into an executive employment agreement with two directors and officers of the company at a cost of $200,000 per annum per director and officer for a total of $400,000 per annum.

The Company is involved in various legal claims and actions totaling $1,400,000 arising from alleged financing services provided to the Company. Although the outcome of these claims cannot be predicted with certainty, the Company does not expect these matters to have a material adverse effect on the Company's financial position, cash flows, or comprehensive loss. If an unfavourable outcome were to occur, there exists the possibility of a material adverse impact on the Company's profit or loss in the period in which the outcome is determined. As at December 31, 2018 the Company has not recognized an accrual for litigation or claims as Management believes the claims are without merit.

During the year, the Company renounced $2,934,404 flow-through funds to investors. This renunciation had a $792,289 impact on the deferred income tax liability. The flow-through funds had been fully spent as at December 31, 2018.

(EXPRESSED IN CANADIAN DOLLARS)

The Company has entered into a sublease agreement for office space over the next 5 years with minimum payments as follows:

2019	$ 233,552
2020	$ 226,975
2021	$ 201,400
2022	$ 201,400
2023	$ 201,400

19. INCOME TAXES

a) The statutory tax rate for the year ended December 31, 2018 is 27% (December 31, 2017 – 26%).

	2018	2017
Loss for the year before income taxes	$ (1,523,123)	$ (2,398,968)
Expected income tax recovery based on statutory rate	(411,000)	(624,000)
Adjustment to expected income tax benefit:		
Change in statutory tax rates and other	79,000	(136,000)
Permanent differences	255,000	179,000
Impact of flow through share	792,000	-
Share issue costs	(261,000)	(18,000)
Adjustment to prior years provisions versus statutory tax returns	23,000	84,000
Change in unrecognized deductible temporary differences	(477,000)	515,000
Income tax provision (recover)	$ -	$ -

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

	2018	2017
Deferred tax assets (liabilities)		
Exploration and evaluation assets	$ (602,000)	$ 1,109,000
Share issue costs	228,000	37,000
Financing costs	283,000	-
Revolving loan facility	(222,000)	
Property and equipment	1,020,000	3,000
Marketable securities	3,000	-
Unrealized foreign exchange	564,000	-
Unrealized gain on warrant liability	(473,000)	
Asset retirement obligation	399,000	73,000
Debt with accretion	(45,000)	(74,000)
Allowable capital losses	156,000	156,000
Non-capital losses	2,649,000	3,133,000
	$ 3,960,000	$ 4,437,000
Unrecognized deferred tax assets	(3,960,000)	(4,437,000)
Net deferred tax assets	$ -	$ -

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

(EXPRESSED IN CANADIAN DOLLARS)

	2018		2017	
Temporary differences				
Exploration and evaluation assets	(2,393,000)	No expiry	3,503,000	No expiry
Investment tax credit	60,000	2019 to 2038	223,000	2018 to 2037
Property and equipment	3,778,000	No expiry	12,000	No expiry
Share issue costs	846,000	2019 to 2022	138,000	2018 to 2021
Marketable securities	21,000	No expiry	2,000	No expiry
Asset retirement obligation	1,479,000	No expiry	269,000	No expiry
Unrealized foreign exchange	2,091,000	No expiry	-	No expiry
Unrealized gain on warrant liability	(1,750,000)	No expiry	-	No expiry
Revolving loan facility	(823,000)	No expiry	-	No expiry
Financing costs	1,048,000	No expiry	-	No expiry
Allowable capital losses	576,000	No expiry	576,000	No expiry
Non-capital losses	9,646,000	2026 to 2037	11,330,000	2026 to 2037

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 December 31, 2018, the Company:

a) Issued 13,200 shares on exercised warrants a price of $0.12 per warrant.

b) Issued 1,400,000 shares on exercised stock options at price of $0.15 per option.

c) Issued 5,000,000 shares on the conversion of notes payable at a price of $0.15 per share.

d) Received proceeds of USD $11,625,000 from the Revolving Notes. Repaid USD $544,108.