

**SATURN OIL & GAS INC.**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017

## **INTRODUCTION**

The following Management's Discussion and Analysis ("MD&A") of Saturn Oil & Gas Inc. (the "Company" or "Saturn") has been prepared by management, in accordance with the requirements of National Instrument of 51-102 as of August 29, 2017 and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended September 30, 2017 and 2016 and the related notes contained therein which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The following should also be read in conjunction with the audited annual financial statements for the year ended December 31, 2016, the related notes contained therein which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the international Accounting Standards Board. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a "Venture Issuer" as defined in NI 51-102. Additional information relevant to the Company's activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Company's website at [www.saturnoil.com](http://www.saturnoil.com).

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

## **OVERVIEW OF THE BUSINESS**

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 and trade under the symbol "SMI".

In January 2017, the Company changed its name to "Saturn Oil & Gas Inc.", which reflects a change in direction for the Company from a mineral-focused exploration company to one with a strong focus on the acquisition and development of oil and gas (O&G) assets in Alberta and Saskatchewan.

At September 30, 2017, the Company reported working capital deficiency of \$1,652,751 (December 31, 2016 – \$1,244,820). The Company is in the process of raising additional financing from outside participation to undertake further development of their assets. At September 30, 2017, the Company had not achieved profitable operations, has accumulated a deficit of \$27,844,633 (December 31, 2016 - \$27,279,015) since its inception however the company is currently producing oil and expects to be profitable in Q4 of 2017.

Management is actively targeting sources of additional financing which would grow the Company's production and revenue through drilling and acquisition. In addition, management closely monitors commodity prices of oil & gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

The company has engaged Deloitte LLP to provide a reserve estimation based on an outlined drilling program. This has resulted in the both proven and proven plus probable reserves being identified which the company is designing their upcoming drill program around.

### **Significant events**

In July 2017, the Company announced a private placement of up to 12,951,944 units (the "Units") at a price of \$0.08 per Unit for gross proceeds of up to \$1,036,155, of which all of it has been received as at the date of this report. Each Unit consists of one common share (the "Shares") and one-half of a share purchase warrant (the "Warrants"). 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 company has three wells in production as of Sept 30, 2017, two of the wells Saturn has a 50% working interest in production with the remaining well being 100% working interest. These wells are drilled to target the Success heavy oil formation and have proven to be economically successful.

As of September 30, 2017, the company has working interest on six sections of highly perspective land with proven reserves on four sections. This is further supported by Deloitte LLP's Corporate Reserves Evaluation and will be the cornerstone to Saturn's expanded operations in 2018

### **Exploration Activities**

a) Flaxcombe

During the period ended September 30, 2017, the Company paid \$88,698 to acquire and develop its Flaxcombe property. The Company has undertaken the recompletion of three vertical oil production wells. One well is a 100% working interest well with the two remaining wells being 50% working interest in production. Deloitte LLP, in their Corporate Reserves Evaluation had 162,000 BOE in proven plus probable reserves (2P) booked on the Flaxcombe assets, with an undiscounted NPV of \$3,164,000. During the period ended September 30, 2017, the Company recompleted a well that was booked as 2P and is now proven developed and producing (PDP).

b) Lucky Hills

During the period ended September 30, 2017, the Company paid \$236,065 to acquire the Lucky Hills oil property in the greater Kindersley area of Saskatchewan. Deloitte LLP, in their Corporate Reserves Evaluation had 226,000 BOE in proven plus probable reserves (2P) booked on the Lucky Hills asset.

## **RESULTS OF OPERATIONS**

### **For the nine months ended September 30, 2017**

The Company incurred operating expenses of \$1,524,648 for the nine months ended September 30, 2017 compared with \$724,810 for the nine months ended September 30, 2016.

A brief explanation of the significant changes in expenses by category is provided below:

- a) Accounting and auditing of \$28,960 (2016 - \$59,400) – The change is a result of fees paid to Cross Davis and Co.
- c) Advertising, promotion and public relations of \$40,911 (2016 - \$124,418) – The decrease is a result of lower volume of advertising, promotion and public relations activities in the current period compared to the prior period.
- d) Consulting fees of \$59,113 (2016 - \$71,571) – The decrease can be attributed to there being lower consulting fees paid to a third party in the period.
- e) Filing fees of \$53,886 (2016 –\$13,706) – The increase is a result of more filing fees charged in the period.
- f) Management fees of \$645,257 (2016 –\$163,000) – The increase is a result of addition of new management and increased management fee rates in the current period.
- g) Share based payments of \$547,833 (2016 –\$139,572) – The increase can be attributed to stock options being granted in the period.
- h) Travel and accommodation of \$19,922 (2016 – \$72,923) – The increase can be attributed to a higher volume of travel in the period.

**For the three months ended September 30, 2017**

The Company incurred operating expenses of \$681,917 for the three months ended September 30, 2017 compared with \$182,312 for the three months ended September 30, 2016.

A brief explanation of the significant changes in expenses by category is provided below:

- b) Administration, office, and rent of \$59,176 (2016 - \$17,190) – The change can be attributed to increased office expenses and rental rates in the period.
- i) Filing fees of \$16,613 (2016 –\$1,500) – The increase is a result of more filing fees charged in the period.
- f) Legal fees of \$18,421 (2016 –\$58 recovery) – The increase can be attributed to a recovery of legal fees charged by a former lawyer of the Company in the prior period.
- g) Management fees of \$223,683 (2016 – \$52,500) – The increase is a result of addition of new management and increased management fee rates in the current period.
- h) Share-based payments of \$238,935 (2016 - \$21,679) – The increase can be attributed to stock options being granted in the period.

During the period ended September 30, 2017, the Company wrote off exploration and evaluation assets in the amount of \$67,400 and sold marketable securities and investments resulting in a decrease in accumulated other comprehensive income of \$70,868 and a net gain of \$51,036 after the remaining marketable securities were adjusted to market value.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

The following is a summary of the results from the eight previously completed financial quarters:

	<b>September 30, 2017</b>	<b>June 30, 2017</b>	<b>March 31, 2016</b>	<b>December 31, 2016</b>
Exploration and evaluation assets	\$ 1,389,057	\$ 937,558	\$ 870,586	\$ 631,754
Total assets	2,740,521	2,281,218	1,399,257	1,241,124
Loss for the period	(565,618)	(243,220)	(238,246)	(4,574,949)
Loss per common share	(0.00)	(0.00)	(0.00)	(0.03)
	<b>September 30, 2016</b>	<b>June 30, 2016</b>	<b>March 31, 2015</b>	<b>December 31, 2015</b>
Exploration and evaluation assets	\$ 4,642,492	\$ 4,558,508	\$ 4,271,209	\$ 2,090,379
Total assets	5,027,912	4,994,556	5,105,331	3,434,611
Loss for the period	(158,010)	(254,547)	(228,758)	(2,292,241)
Loss per common share	(0.00)	(0.00)	(0.00)	(0.02)

During the period ended December 31, 2016, the Company wrote off exploration and evaluation assets in the amount of \$4,245,676, wrote off exploration and evaluation advances in the amount of \$49,728, recorded unrealized gain on investments of \$20,566, unrealized gain on marketable securities of \$20,000 and gain on settlement of accounts payable of \$74,881.

During the period ended December 31, 2015, the Company recorded write-off of exploration and evaluation assets of \$988,327, recorded write-off of exploration and evaluation advances of \$102,758, recorded an unrealized gain on marketable securities of \$85,000, recorded settlement of litigation expense of \$50,000, recorded a recovery of due from related parties of \$72,446, and recorded an impairment of investment of \$1,216,860.

## **LIQUIDITY**

As at September 30, 2017, the Company had \$894,916 (December 31, 2016 - \$190,719) in cash. The Company had current assets of \$999,965 (December 31, 2016 - \$512,026) and current liabilities of \$2,652,716 (December 31, 2016 - \$1,756,846) with a working capital deficiency of \$1,740,556 (December 31, 2016 - \$729,098). The Company has to rely upon the sale of equity securities, debt financing and retained earnings required for acquisitions, exploration and development, and operating expenses.

During the period ending September 30, 2017, the Company received proceeds from two convertible notes totaling \$2,000,000 from a third party. Both promissory notes bear an interest of 5% per annum and are payable on May 15, 2018 and the second on September 1, 2018.

## **CAPITAL RESOURCES**

The Company relies primarily on the issuance of shares to raise working capital and to fund its ongoing exploration programs.

During the period, the Company announced a private placement of up to 12,951,944 units (the "Units") at a price of \$0.08 per Unit for gross proceeds of up to \$1,036,155, of which all of it has been received as at the date of this report. Each Unit consists of one common share (the "Shares") and one-half of a share purchase warrant (the "Warrants"). 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

## **RELATED PARTY TRANSACTIONS**

During the period ended September 30, 2017, the Company incurred the following transactions with directors, officers and other key management personnel:

	<b>Six months ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Accounting	\$ 16,438	\$ 31,500
Consulting fees	45,935	-
Legal fees	5,925	-
Management fees	600,883	163,000
Share based payments	430,301	47,539
Gain (loss) on settlement of accounts payable	(128,807)	-
Geological services recorded in exploration and evaluation assets	4,000	-
<b>Total</b>	<b>\$ 974,675</b>	<b>\$ 242,039</b>

As at September 30, 2017, the Company owed \$200,000 to its directors, officers, other key management personnel of the Company, and companies controlled by officers of the Company.

## **RISKS AND UNCERTAINTIES**

*Factors beyond our control may determine whether any O&G reserves we discover are sufficiently economic to be developed.*

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

*Land reclamation requirements for our exploration properties may be burdensome.*

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

*We face industry competition in the acquisition of exploration properties and the recruitment and retention of qualified personnel.*

We compete with other exploration companies, many of which have greater financial resources than us or are further along in their development, for the acquisition of O&G leases and as well as for the recruitment and retention of qualified employees and other personnel. If we require and are unsuccessful in acquiring additional properties or personnel, we will not be able to grow at the rate we desire or at all.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

### Changes in Internal Control over Financial Reporting ("ICFR")

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

## OUTSTANDING SHARES, STOCK OPTIONS AND WARRANTS

As at the date of this report, the Company had the following outstanding:

- 158,162,163 common shares – 12,951,944 issued in the period.
- Warrants:

<b>Expiry Date</b>	<b>Outstanding Warrants</b>	<b>Exercise Price</b>
January 27, 2019	1,999,800	\$ 0.15
June 30, 2019	6,475,972	0.15
	<b>8,475,772</b>	

- Stock options:

<b>Expiry Date</b>	<b>Outstanding Options</b>	<b>Exercise Price</b>
October 10, 2017	575,000	\$ 0.20
November 13, 2017	1,850,000	0.20
February 15, 2018	885,000	0.20
January 22, 2019	2,750,000	0.15
February 24, 2020	1,275,000	0.20
May 7, 2020	2,000,000	0.20
January 29, 2021	500,000	0.15
April 18, 2022	10,000,000	.08
August 28, 2022	10,000,000	.09
	<b>23,885,000</b>	

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## **PROPOSED TRANSACTIONS**

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

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

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

## **OTHER MD&A REQUIREMENTS**

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

## **DIRECTORS AND OFFICERS**

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

John Jeffrey	– <i>Chief Executive Officer and Director</i>
Scott Newman	– <i>Chief Financial Officer and Director</i>
Ivan Bergerman	– <i>Director</i>
Calvan J. Payne	– <i>Director</i>

## **FORWARD-LOOKING INFORMATION**

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

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



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

#### **RECENT ACCOUNTING POLICIES**

Please refer to the September 30, 2017 condensed interim financial statements on [www.sedar.com](http://www.sedar.com).

#### **FINANCIAL INSTRUMENTS**

Please refer to the September 30, 2017 condensed interim financial statements on [www.sedar.com](http://www.sedar.com).