



**SATURN OIL & GAS INC.**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30, 2018

## **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 24, 2018 and should be read in conjunction with the unaudited condensed interim financial statements for the six months ended June 30, 2018 and 2017 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, 2017, 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 and development 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".

At June 30, 2018, the Company reported working capital deficiency of \$4,085,269 (December 31, 2017 – \$3,338,779). The Company is in the process of raising additional financing from outside participation to undertake further development of their assets. At June 30, 2018, the Company achieved profitable operations, however has an accumulated deficit of \$29,346,155 (December 31, 2017 - \$29,677,983).

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 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.

In December 2017, the Company 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.

In June 2018, the Company announced a brokered private placement of flow-through common shares and both brokered and non-brokered non-flow-through units. The private placement consisted of up to 12,500,000 flow-through common shares at a price of \$0.12 per Flow-Through Share and 29,166,667 common share units at a price of \$0.12 per Unit, for a minimum gross proceeds of approximately \$3,500,000 and up to a maximum gross proceeds of approximately \$5,000,000. The securities issued in connection with the Offering will be subject to a four-month hold period under applicable securities laws.

As of June 30, 2018, the Company completed the brokered private placement of flow-through common shares and both brokered and non-brokered non-flow-through 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. Each unit consisted of one common share of the Company and one common share purchase warrant exercisable into one common share of the Company at a price of \$0.18 per warrant for a period of 24 months from July 18, 018.

The private placement was brokered by Canaccord Genuity Corp. and Gravitas Securities Inc. The agents were paid a commission comprised of a cash fee in the amount of \$195,351 and issued an aggregate of 1,627,947 agents' unit options. Each agents' unit option is exercisable into one unit at a price of \$0.12 per unit for a period of 24 months from July 18, 2018.

As of June 30, 2018, the Company commenced drilling operations for its Q3/2018 horizontal drill program. Saturn's Q3/2018 five well program consisted of one Success horizontal well in the Milton field, one Viking extended reach horizontal well in the Kerrobert field, one Viking extended reach horizontal well in the Prairiedale field, one Viking half-mile horizontal well in the Flaxcombe field and one Viking extended reach horizontal well at its 50% working interest Lucky Hills asset. These wells have since been completed and brought online.

### **Property, Plant and Equipment**

During the period ended June 30, 2018, the Company transferred \$3,236,931 from exploration and evaluation. The Company tested for impairment immediately preceding the transfer of exploration and evaluation assets to property, plant and equipment during the period ended June 30, 2018. The Company determined that there was no impairment.

During the quarter ended June 30, 2018, the Company participated in the Public Offering 382 land sale that took place on April 10, 2018 where the Company purchased 1 section of land.

During the quarter ended June 30, 2018, the Company participated in the Public Offering 382 land sale that took place on June 5, 2018 where the Company purchased 6-3/4 sections of land.

As of June 30, 2018, the Company acquired 10 lease parcels totaling 8.25 sections, bringing Saturn's total land position in the Kindersley area to 32.50 sections (27.50 net).

### **Exploration Activities**

- a) During the period ended June 30, 2018, the Company recompleted well 121/03-31-029-26W3/03. The total cost of this operation was \$270,514.00. This well was brought online June 21, 2018.
- b) During the period ended June 30, 2018, the Company drilled, completed and brought on line three Viking horizontal wells. The total cost of this operation was \$2,166,514.00. The wells brought online were: 102/10-31-029-26W3, 102/09-29-29-26W3, 101/15-030-29-26W3.

## **RESULTS OF OPERATIONS**

### **For the six months ended June 30, 2018**

The company earned revenue from the production and sale of oil in the amount of \$2,150,409.

The Company paid royalties of \$277,310.

The Company earned a Gross Profit of \$1,214,970.

The Company incurred operating expenses of \$1,063,227 for the six months ended June 30, 2018 compared with \$542,498 for the for six months ended June 30, 2017.

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

- a) Accounting and auditing of \$9,398 (2017 - \$16,438) – The change is a result of fees paid to Cross Davis and Co. in the prior year.
- b) Administration, office, and rent of \$100,219 (2017 –\$5,202) – The change is a result foreign exchange adjustments on the Company's investments in the prior year as well as the Company not establishing a head office with full time operations.
- a) Advertising, promotion and public relations of \$158,488 (2017 - \$20,266) – The increase is a result of an increased volume of advertising, promotion and public relations activities in the current period compared to the prior period.
- b) Consulting fees of \$64,094 (2017 - \$10,178) – The increase can be attributed to increased activities in relation to the assets and properties in production.
- c) Filing fees of \$36,756 (2017 –\$11,671) – The increase is a result of more filing fees charged in the period.
- g) Interest expense of \$158,967 (2017 - \$NIL) – The increase is a result of interest paid on the convertible and promissory notes.
- h) Insurance of \$16,302 (2017 –\$1,704) – The increase is an increase in the amount of insurance taken out in the year.
- h) Management fees and salaries of \$183,333 (2017 – \$421,574) – The decrease is a result of management reducing the fees paid to in the year.
- i) Share-based payments of \$275,107 (2017 - \$308,898) – The increase is a result of a higher volume of stock options granted.
- j) Travel and accommodation of \$27,795 (2017 – \$5,210) – The increase is a result of a lower volume of travel activities in the current year.

During the period ended June 30, 2018, the Company wrote off exploration and evaluation assets in the amount of NIL (2017 - \$9,999), unrealized gain on marketable securities of \$3,200 (2017 – loss of \$15,000), loan structuring costs of \$94,633 (2017 – NIL), and a gain on the settlement of accounts payable of \$281,118 (2017 – \$386,263).

**For the three months ended June 30, 2018**

The company earned revenue from the production and sale of oil in the amount of \$1,055,832.

The Company paid royalties of \$119,340.

The Company earned a Gross Profit of \$598,836.

The Company incurred operating expenses of \$566,720 for the three months ended June 30, 2018 compared with \$593,483 for the for six months ended June 30, 2017.

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

- b) Administration, office, and rent of \$59,584 (2017 – \$6,648) – The change is a result foreign exchange adjustments on the Company's investments in the prior year as well as the Company not establishing a head office with full time operations.
- d) Advertising, promotion and public relations of \$139,365 (2017 - \$2,597) – The increase is a result of an increased volume of advertising, promotion and public relations activities in the current period compared to the prior period.
- e) Consulting fees of \$31,911 (2017 - \$16,636) – The increase can be attributed to increased activities in relation to the assets and properties in production.
- f) Filing fees of \$14,522 (2017 –\$3,201) – The increase is a result of more filing fees charged in the period.
- g) Interest expense of \$78,247 (2017 - \$NIL) – The increase is a result of interest paid on the convertible promissory notes.
- g) Legal fees of \$22,288 (2017 - \$504) – the increase is a result of increased fees relating to general corporate and business matters.
- k) Management fees and salaries of \$83,333 (2017 – \$197,20224,3740) – The decrease is a result of management reducing the fees paid to in the year.
- l) Share-based payments of \$100,840 (2017 - \$306,008) – The increase is a result of a higher volume of stock options granted in the prior year.
- m) Travel and accommodation of \$19,446 (2017 – \$5,210) – The increase is a result of a lower volume of travel activities in the current year.

During the period ended June 30, 2018, the Company wrote off exploration and evaluation assets in the amount of NIL (2017 - \$6,000), unrealized loss on marketable securities of \$9,600 (2017 –\$30,000), loan structuring costs of \$94,633 (2017 – NIL), and a gain on the settlement of accounts payable of \$143,834 (2017 – \$386,263).

**SELECTED QUARTERLY FINANCIAL INFORMATION**

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

	<b>June 30, 2018</b>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Property, plant and equipment	\$ 5,245,729	\$ 4,690,750	\$ 2,267,014	\$ -
Exploration and evaluation assets	3,318,756	2,060,600	1,510,814	1,389,057
Total assets	10,311,564	8,302,371	5,278,100	2,740,521
Income (loss) for the period	331,828	260,111	(2,398,968)	(565,618)
Income (loss) per common share	(0.00)	(0.00)	(0.02)	(0.00)
	<b>June 30, 2017</b>	<b>March 31, 2016</b>	<b>December 31, 2016</b>	<b>September 30, 2016</b>
Exploration and evaluation assets	\$ -	\$ 870,586	\$ 631,754	\$ 4,642,492
Total assets	937,558	1,399,257	1,241,124	5,027,912
Loss for the period	2,281,218	(238,246)	(4,574,949)	(158,010)
Loss per common share	(243,220)	(0.00)	(0.03)	(0.00)

During the period ended December 31, 2017, the Company wrote off exploration and evaluation assets in the amount of \$674,747, recorded gain on investments of \$70,836, unrealized loss on marketable securities of \$21,400 and gain on settlement of accounts payable of \$342,715.

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.

**LIQUIDITY**

As at June 30, 2018, the Company had \$264,733 (December 31, 2017 - \$747,241) in cash. The Company had current assets of \$1,410,132 (December 31, 2017 - \$1,173,337) and current liabilities of \$8,901,432 (December 31, 2017 - \$4,512,116) with a working capital deficiency of \$6,085,269 (December 31, 2017 - \$3,338,779). The Company has started to earn a profit on oil production, however has to rely upon the sale of equity securities, debt financing and retained earnings required for further acquisitions, exploration and development.

During the year ended December 31, 2017 the Company received proceeds from three convertible notes totaling \$3,500,000 from a third party. The promissory notes bear an interest of 5% per annum and are payable on demand (\$1,000,000), May 15, 2018 (\$1,000,000), and on November 30, 2020 (\$1,500,000).

**CAPITAL RESOURCES**

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

In June 2018, the Company announced a brokered private placement of flow-through common shares and both brokered and non-brokered non-flow-through units. The private placement consisted of up to 12,500,000 flow-through common shares at a price of \$0.12 per Flow-Through Share and 29,166,667 common share units at a price of \$0.12 per Unit, for a minimum gross proceeds of approximately \$3,500,000 and up to a maximum gross proceeds of approximately \$5,000,000. The securities issued in connection with the Offering will be subject to a four-month hold period under applicable securities laws.

## RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2018, the Company incurred the following transactions with directors, officers and other key management personnel:

	<b>2018</b>	<b>2017</b>
Accounting	\$ -	\$ 18,000
Consulting fees and Geological fees	116,628	4,000
Legal fees	3,804	-
Management fees	175,000	377,200
Share based payments	200,157	304,569
Consulting expense	18,675	-
<b>Total</b>	<b>\$ 536,552</b>	<b>\$ 703,769</b>

As at June 30, 2018, the Company owed \$171,147 (December 31, 2017 - \$299,729) 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.

## 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:

- 195,213,663 common shares – 33,633,500 issued in the year.

Warrants:

<b>Expiry Date</b>	<b>Outstanding Warrants</b>	<b>Exercise Price</b>
May 11, 2019	859,375	\$ 0.15
June 18, 2019	1,706,000	\$ 0.20
January 10, 2019	6,475,972	\$ 0.15
June 7, 2020	11,198,500	\$ 0.18
July 3, 2020	2,091,666	\$ 0.18
July 18, 2020	12,562,634	\$ 0.18
July 18, 2020	1,627,947	\$ 0.12
	<b>36,522,094</b>	

Stock options:

<b>Expiry Date</b>	<b>Outstanding Options</b>	<b>Exercise Price</b>
January 22, 2019	1,450,000	0.15
February 24, 2020	525,000	0.20
May 7, 2020	1,000,000	0.20
January 29, 2021	500,000	0.15
April 18, 2022	10,000,000	0.08
August 28, 2022	4,050,000	0.09
February 21, 2023	1,700,000	0.16
	<b>19,225,000</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.

## **SUBSEQUENT EVENT**

Subsequent to the period ended June 30, 2018, the Company:

- a) 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.
- b) Completed drilling and completion operations on five wells consisting of one Success horizontal well in the Milton field, one Viking extended reach horizontal well in the Kerrobert field, one Viking extended reach horizontal well in the Prairiedale field, one Viking half-mile horizontal well in the Flaxcombe field, and one Viking extended reach horizontal well at its 50% working interest Lucky Hills asset.
- c) Obtained approval from the TSX Venture Exchange ("TSX.V") to change to the Company's ticker symbol. The Company's common shares will trade on the TSX.V under the ticker symbol "SOIL" effective at the opening of the market on Tuesday, August 7, 2018. The previous ticker symbol was "SMI". There have been no changes to the characteristics of any of the Company's securities and no action is required by current shareholders in connection with this change.

## **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>
Calvin J. Payne	– <i>Director</i>
Christopher Ryan	– <i>Director</i>
Justin Kaufmann	– <i>Vice President of Exploration</i>
Geoff Jones	– <i>Vice President of Finance</i>

## **FORWARD-LOOKING INFORMATION**

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

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

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

## **RECENT ACCOUNTING POLICIES**

Please refer to the June 30, 2018 audited financial statements on [www.sedar.com](http://www.sedar.com).

## **FINANCIAL INSTRUMENTS**

Please refer to June 30, 2018 audited financial statements on [www.sedar.com](http://www.sedar.com).