GBC AG
Investment Research

Research report Q3-2021 results update

Saturn Oil & Gas

SATURN
OIL + GAS INC.

Record quarter production
6,970 boe/d
-
Record quarter Free Cash Flow
$9.5M CAD

Target Price: 12.17 CAD
Rating: BUY

Note: This study is for internal use only. The study takes a planned M&A transaction into account. Therefore, it may only be passed on to investors who are familiar with this transaction and have been instructed and/or classified by the company accordingly.

IMPORTANT NOTE:
Please take note of the disclaimer/risk warning, as well as the disclosure of potential conflicts of interest as required by section § 85 WpHG und Art. 20 MAR on page 32

Note on research as a "minor non-monetary benefit" according to the MiFID II regulation: This research meets the requirements for being classified as a "minor non-monetary benefit". For more information, see the disclosure under "I. Research under MiFID II"

Date and time of completion of this research: 20/12/2021 6:30 pm
Date and time of first distribution: 21/12/2021 10:00 am
Target price valid until: max. 31/12/2022

GBC AG Investment Research

Saturn Oil & Gas Inc.*5a,6a,7,11

Rating: BUY
Target price: 12.17 CAD (previously 9.20 CAD (adjusted for share consolidation))

Price: $3.10 CAD
15/12/2021 TSX / 07:30 pm
Currency: CAD

Key Data:

ISIN: CA80412L8832
WKN: A3C9X6
TSX.V: SOIL
FSE: SMKA
Number of shares³: 25.1
Marketcap³: $77.81M CAD
³ in m / in m CAD /

Primary listing: TSX-Venture
Secondary listing: Frankfurt

Accounting Standard:
IFRS

FY end: 31/12/

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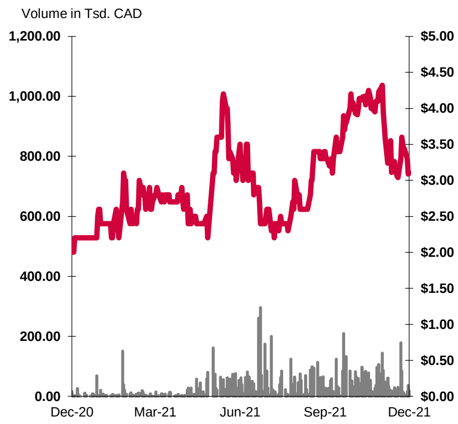
* List of possible conflicts of interest on page 30

Company Profile

Sector: Energy
Focus: Oil & Gas

Headquartered in Calgary, Alberta

Management: John Jeffrey (CEO), Scott Sanborn (CFO), Justin Kaufmann (Senior VP Exploration), Kevin Smith (VP Corporate Development)



Saturn Oil & Gas is a Canadian exploration and development company. The company holds licenses for oil and gas exploration in southeast Saskatchewan and west-central Saskatchewan. Saturn Oil & Gas Inc. is an energy company focused on the acquisition and development of undervalued, low-risk assets. Saturn has built a strong base of cash flow through strategic land positions and acquisitions.

Saturn Oil & Gas has completed the acquisition of the Oxbow asset comprising 450 net sections of land (1,165 km^2) in southeast Saskatchewan which currently produces over 6,700 boe/d. The Oxbow property is a mature asset that has extensive infrastructure and facilities with direct pipeline connections to the global sales network. More importantly, Saturn Oil & Gas production consists of 96% liquid oil and only 4% natural gas.

P&L in $M CAD	FY 2020	FY 2021e	FY 2022e	FY 2023e
Sales	7.55	105.62	197.10	226.48
EBITDA	0.96	36.67	74.81	85.32
EBIT	5.58	20.38	43.49	48.50
Net income	-3.31	-60.46	7.89	25.38

Key figures				
EPS	-0.42	-2.41	0.31	1.01
Cash Flow/Share	0.23	1.46	2.98	3.40
EBIT/Share	0,09	0.81	1.73	1.93
Cash/Share	0.00	0.55	0.80	1.14

Key figures				
EV/Sales	0.26	1.36	0.57	0.38
EV/EBITDA	30.07	3.92	1.49	1.01

Financial calendar
04/15/22 FY 2021 Earnings (Projected)
05/20/22 Q1 2022 Earnings (Projected)
08/31/22 H1 2022 Earnings (Projected)

** Last research by GBC:
Date: publication / target price / rating
08/06/2021: RS / $9.20 / BUY
** the research reports can be found on our website www.gbc-ag.de or can be requested at GBC AG, Halderstr. 27, D-86150 Augsburg

EXECUTIVE SUMMARY

- **Record production.** The company has produced 6,970 boe/d during Q3-2021. This represents an increase of 270% over their Q2 results and 1297% over Q3 2020.

- **Record Free Cash Flow.** The company Q3 EBITDA resulted in $17.2M CAD. The company posted a $9.5M CAD positive free cash flow, after capital expenditures, compared to $0.3M CAD in Q3 2020.

- **Balance sheet discipline.** Its lean structure and conservative capital expenditure of $4.5M CAD allows the company to exit Q3 2021 with over $14M CAD cash on hand.

- **Mature assets.** The maturity of the Oxbow asset and low decline rate of 12% gives Saturn Oil & Gas flexibility for future development. There are currently 370 drilling location with certified reserves. Additionally, there is the opportunity for low capex and rapid increase in oil production as brought about by 400 reactivations of non-producing wells.

- **Hard counter to oil price volatility.** The strong hedge against WTI spot price secures debt repayment at the cost of capping a potential increase in revenues. However, it creates revenue stability, easier long-term projections and secures internal funding of growth projects.

- **Future profitability.** Saturn Oil & Gas has incurred $66.8M CAD in 2021 in unrealized non-cash losses on future oil hedging positions. Therefore, in future periods Saturn Oil & Gas is expected to report higher earnings based on increased future production levels (88% of the $66.8M CAD is for 2022-to-2025 derivative contracts)

- **Market and financier support.** The company has completed a share consolidation. With 25.1M shares out and the support of their financier, the company could be looking for more unique acquisition opportunities.

- **Asset fully integrated.** The Q3 results indicate to the markets that the integration of the asset is now complete.

- **Brighter future.** The company is poised and ready for their next development stage. Acquisition or organic growth. The oil price will most definitely guide the next phase for Saturn Oil & Gas.

- **Based on our DCF model we have raised our price target to 12.17 CAD per share and maintain our BUY rating.**

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Q3 – 2021 MATERIAL EVENTS

Date	Press release
11/2021	Saturn Oil & Gas Inc. Reports Record Cash Flow from Operations in Q3 2021 Result
11/2021	Saturn Oil & Gas Inc. Announces Third Quarter 2021 Results Release Date and Webcast Details
11/2021	Saturn Oil & Gas Inc. Announces Successful Q3 2021 Drilling and Workover Program
10/2021	Saturn Oil & Gas Inc. Announces CEO Presenting at the IIF International Investment Forum and Completes Share Consolidation
09/2021	Saturn Oil & Gas Inc. Confirms 43.3 million BOE of Reserves in New Oxbow Asset Evaluation and Announces New Director to the Board

Sources: Saturn Oil & Gas, GBC AG

Management changes

After more than a year of global pandemic and economic stress, big restructuring decisions are common in a great many industry sectors. However, the management of Saturn Oil & Gas has decided to play to their strengths and has retained all the company's executives after the acquisition. Additionally, the company has welcomed Scott Sanborn as CFO and Kevin Smith as VP of Corporate Development.

Scott Sanborn, CFO
Mr. Sanborn brings over 14 years of oil- and gas-focused finance, capital markets and accounting experience. Starting in 2016, he served as Corporate Controller of Calgary-based Jupiter Resources, which grew to 70,000 BOE/d until its sale to Tourmaline Oil in 2020 for $626 million. Prior thereto, Mr. Sanborn had held various leadership roles with energy companies including Marquee Energy and Verano Energy, and previously, had worked with KPMG LLP. Mr. Sanborn holds his Chartered Professional Accountant Designation and earned a Bachelor of Commerce degree in Accounting from the University of Calgary.

Kevin Smith, VP Corporate Development
Mr. Smith has over 20 years' experience in the energy and financial services industries and most recently held the position of Vice President Business Development for an important oil company building the first independent oil and gas producer in Mexico in over 80 years. Mr. Smith has held senior investment banking roles with Paradigm Inc., Macquarie Capital Markets Canada Ltd., and HSBC Securities Inc. He has a Bachelor of Commerce from the University of Alberta and an MBA (Finance) from Ivey School of Business in Ontario.

We believe that Mr. Sanborn's industry-specific experience with a major oil producer and Mr. Smith's international and local expertise will be a significant addition to the team and fit perfectly within the company's development strategy.

Share consolidation

Saturn Oil & Gas completed their share consolidation on October 7, 2021. The consolidation was realized on a 20-to-1 basis and approved at the special shareholders meeting held on June 22, 2021. Post-consolidation, the company shares count will be approximately 25,145,352 against a prior count of 502,907,048.

According to regulations, the warrants are not consolidated and continue trading on a pre-consolidation value under the symbol SOIL.WT on the TSXV at an exercise price of $ 0.16

CAD. Warrants holders can convert 20 warrants for one common share, resulting in a price of $ 3.20 CAD.

Share Structure – Post-Consolidation

Shares outstanding: 25.1M
Options average exercise $2.50 2.0M
SOIL.WT warrants 20 warrants +$3.20 268.3M
Other warrants avg. exercise $3.20 4.2M

Following this share consolidation, current shareholders hold fewer shares. but each share is worth more in proportion. As a result, share consolidations have no effect on the aggregate value of what shareholders own or the corporation's overall market capitalization.

Share consolidations are frequently used to make a share more appealing to institutional investors who consider penny stocks to be too volatile. Before consolidation, Saturn Oil & Gas was trading under $ 0.20 CAD, making the stock unattractive for funds, institutional investors, and family offices.

Saturn Oil & Gas share purchase warrants trade as SOIL.WT on the TSX-V. The warrants were not consolidated with the common shares as per regulation. Twenty (20) warrants are required to purchase 1 Saturn Oil & Gas common share. There are currently 268.M outstanding warrants that, if were all exercised, would become 13.4M common shares.

The company used the perfect timing of their acquisition and Q3 results to complete their consolidation supported by the added value of the Oxbow asset. The consolidation also translates favorably with the long-term view of their CEO, who is always on the hunt for another material transaction.

Earnings per share, dividends per share, and asset values per share are restated in proportion to the consolidation.

Q3-2021 RESULTS

The Oxbow asset that Saturn Oil & Gas acquired for cash consideration of $79.5M CAD holds much promise. The acquisition was done at a fraction of its face value or generation of projected discounted cash flow. The acquisition was also the cheapest per boe/d in the sector for years.

Production

	Q3-Projected	Realized	Performance
Approx. Production (boe/d)	7,075	6,970	-1.5%
Net Realized Price (After Hedging)	53.54	67.87	+26.7%

Sources: Saturn Oil & Gas, GBC AG

The production was directly in line with our expectations. We believe that the company has truly delivered on the integration of this asset and the promises it made concerning the acquisition. The asset depletion rate is in line with what historical and comparable results obtained in the industry.

In the company's favor, the oil price rose more quickly than expected during the last quarter, resulting in a 26.7% increase in realized net sales price for the company compared to our projection.

Free Cash Flow

(in $M CAD)	Q3 Results
Cash flow from operating activities	16.160
Non-cash working capital	-2.491
Adjusted Funds Flow	13.669
Cash transaction cost	0.254
Capital expenditures	-4.445
Adjusted Free Cash Flow	**9.478**

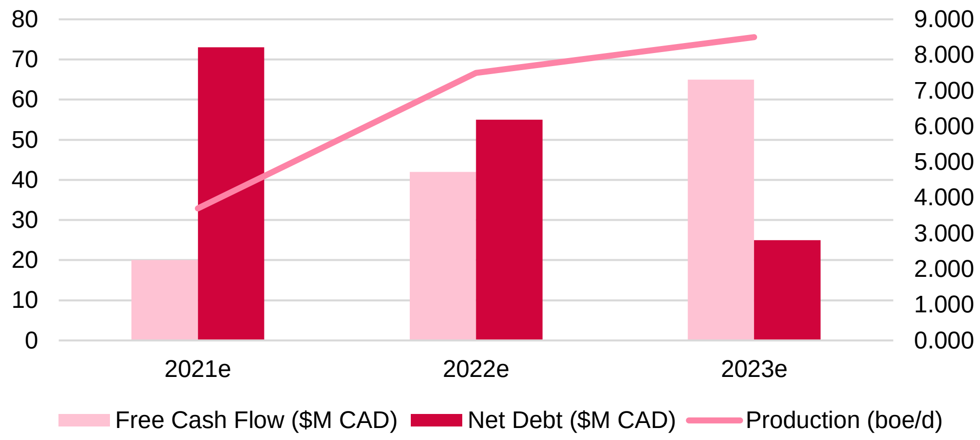
Sources: Saturn Oil & Gas, GBC AG

The company realized FCF of $9.478M CAD for Q3-2021. This represents 69% of the net cash provided by operating activities. This remains very high compared to their peers, but we expect this margin to slightly decrease over the next few years as debt is repaid and more cash flow is directed to growth projects.

The capital expenditure results consist of three newly drilled and operated 100% working interest Viking wells as well as an additional participation in two gross non-operated wells (0.54 net wells). They have also conducted workovers/re-activations of existing non-producing wells. The three wells were brought into production in October and should start generating income in Q4 2021. These three new wells should aggregate into an initial production of 300 bbls/d, in line with their Viking wells' corporate average decline rate.

This long-term steady FCF should allow the company to increase shareholder value by retiring debt.

FCF, net debt and production forecast



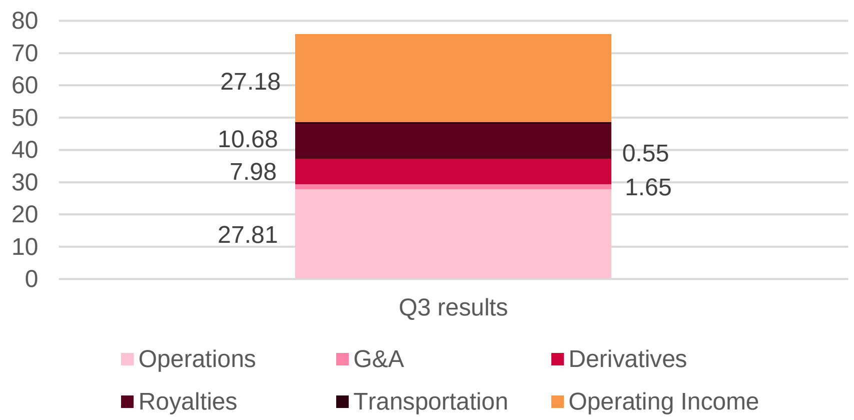
Sources: Saturn Oil & Gas, GBC AG

BOE net back

The company's operational costs were in line with our expectations at $27.50. Their G&A costs, at $1.65, were lower than had been expected by a significant margin due to the reduction of employees per BOE. The company is keeping a very low headcount and is delivering on their promise of "running lean". We believe the company can achieve even lower operating costs in the next quarter per BOE produced. The royalties totaling $10.68 CAD increased significantly per BOE as they are a function of the spot price.

The derivatives costs were higher than expected as the price of oil rose significantly faster than anticipated. These costs are increasing proportionally with the oil price. The higher the oil price, the more money is lost from hedging positions. Even if unpleasant for shareholders, this is not a material loss and only represents 10% of sale price of oil received. We view it as an insurance cost for the company to ensure debt repayment as well as protecting the company from the current highly volatile market. One example of this highly volatile market has been seen during the past few days with a collapse of the oil price, as traders have speculated on the impact of the Omicron variant of the Covid virus.

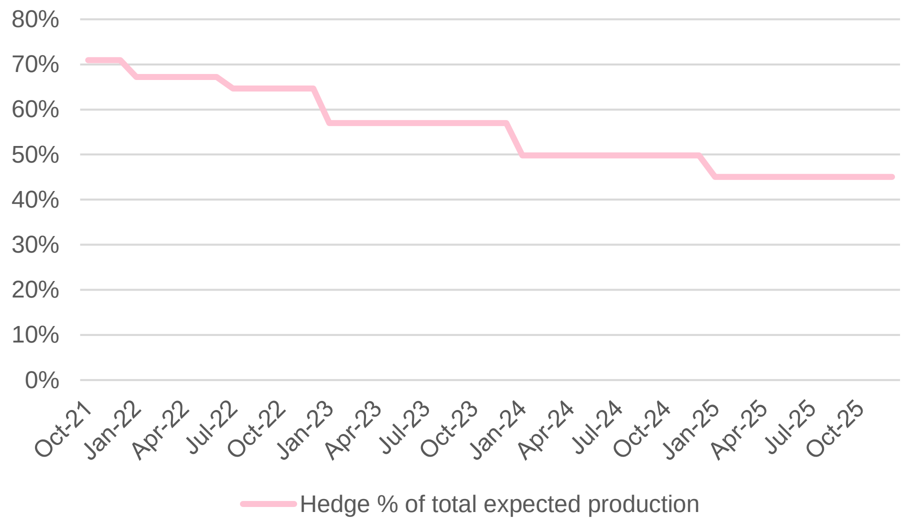
BOE net back ($/boe)



Sources: Saturn Oil & Gas, GBC AG

The derivatives loss could reduce with time as the company's hedged production has been diminishing every year.

Hedge production per year (estimate)

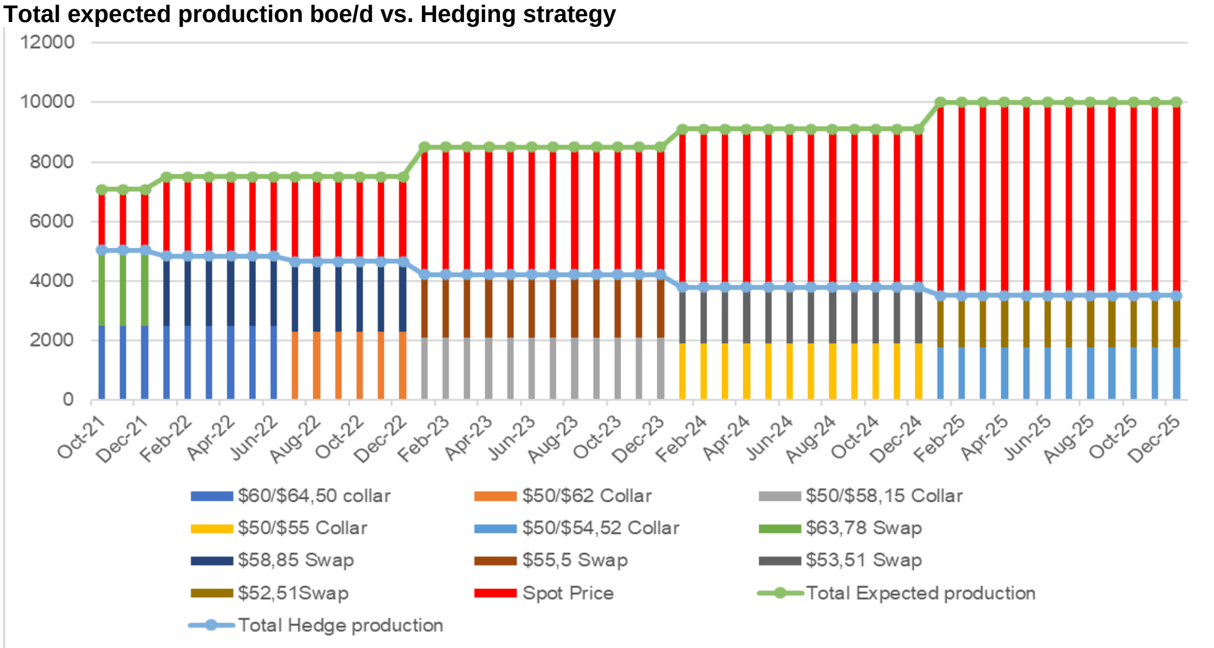


Sources: Saturn Oil & Gas, GBC AG

Hedging strategy

One counterargument to the Oxbow acquisition was the low exposure to the spot price resulting from the lender's hedging requirement. However, for this statement to be true, the company would have had to have had other means of financing the transaction. Lacking these options, the company instead chose the most secure term sheets for investors. They now provide a risk-free debt repayment blueprint while understanding the counterweight to be lower returns. We consider the debt repayment to be risk-free as the company has hedged enough production to repay the entire debt within three years. This was a condition of the financing structure.

Total expected production boe/d vs. Hedging strategy



Sources: Saturn Oil & Gas, GBC AG

With this transaction and its financing structure, the company was able to create over $250M CAD in FCF (undiscounted) for an equity financing of $35M CAD while the company had a market cap of around $30M CAD. Hedging was the price to pay during bull oil price markets.

Oil price impact on BOE net back

Change in oil price	Higher oil price	Lower oil price
Operation costs	Increase	Decrease
G&A	Increase	Decrease
Derivatives loss	Significant increase	Significant decrease and could be turned into gains
Royalties	Significant increase	Significant decrease
Profits	Relative increase	Relative decrease

Sources: Saturn Oil & Gas, GBC AG

Oil Reserves

Through the acquisition of the company's producing Oxbow asset, the company has increased their oil reserves significantly. We estimate the company reserves at FY2021 to be over 24.8 mmboe, implying a reserve life index of 9.7 years, which is the highest of their peer group.

Reserves (mmboe)	FY 2018	FY 2019	FY 2020	FY 2021e
PDP	0.6	0.9	0.7	24.8
Proved (1P)	2.2	3.6	3.3	33.8
Proved + Probable (2P)	4.6	7.4	6.6	49.9

Sources: Saturn Oil & Gas, GBC AG

OXBOW ASSET COST OF FINANCING

Financing term sheet

The senior debt of $87M CAD runs at an interest rate of 11.5% + bankers acceptance rate quarterly for three years, corresponding to a 12.5% annual interest rate. The company is required to make monthly principal repayments as follows:

- August 31, 2021 to July 31, 2022 of $3.6 million per month
- August 31, 2022 to July 31, 2023 of $2.2 million per month
- August 31, 2023 to June 7, 2024 of $1.5 million per month

In order to secure repayment, the lender has demanded that the entire repayment plan be covered by production derivatives instruments to minimize potential risk of default.

Hedging details

Saturn Oil & Gas has released their hedging position as of September 30, 2021:

Commodity	Index	Type	Term	Daily volume (bbl/d)	Bought put price ($US/bbl)	Sold call price ($US/bbl)	Swap price ($US/bbl)
WTI Crude Oil	NYMEX	Collar	Oct 1-21 to Jun 30-22	2,474	60.00	64.60	
WTI Crude Oil	NYMEX	Collar	Jul 1-22 to Dec 31-22	2,293	50.00	62.00	
WTI Crude Oil	NYMEX	Collar	Jan 1-23 to Dec 31-23	2,109	50.00	58.15	
WTI Crude Oil	NYMEX	Collar	Jan 1-24 to Dec 31-24	1,893	50.00	55.00	
WTI Crude Oil	NYMEX	Collar	Jan 1-25 to May 31-25	1,757	50.00	54.25	
WTI Crude Oil	NYMEX	Swap	Oct 1-21 to Dec 31-21	2,550			63.78
WTI Crude Oil	NYMEX	Swap	Jan 1-22 to Dec 31-22	2,364			58.85
WTI Crude Oil	NYMEX	Swap	Jan 1-23 to Dec 31-23	2,109			55.50
WTI Crude Oil	NYMEX	Swap	Jan 1-24 to Dec 31-24	1,893			53.51
WTI Crude Oil	NYMEX	Swap	Jan 1-25 to May 31-25	1,757			52.51
WTI MSW Differential (1)	NGX	Swap	Oct 1-21 to Dec 31-21	5,099			6.07
WTI MSW Differential (1)	NGX	Swap	Jan 1-22 to Mar 31-22	4,943			6.07
WTI MSW Differential (1)	NGX	Swap	Apr 1-22 to Jun 30-22	4,797			6.07
WTI MSW Differential (1)	NGX	Swap	Jul 1-22 to Sep 30-22	4,651			6.07
WTI MSW Differential (1)	NGX	Swap	Oct 1-22 to Dec 31-22	4,522			6.07

Sources: Saturn Oil & Gas, GBC AG

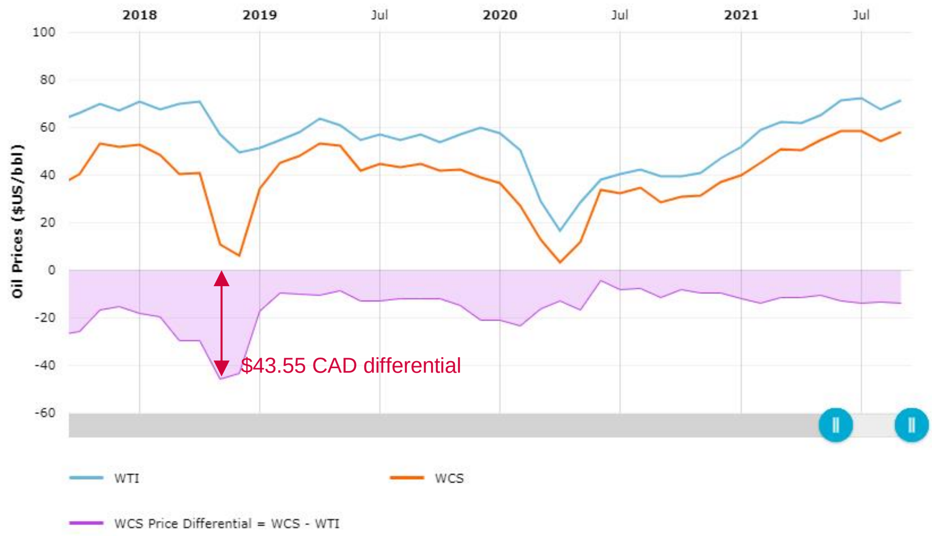
The company strategy of securing debt as per their loan agreement materializes most importantly in managing the oil price risk. As the company's production is over 96% oil and liquid, financial derivatives instruments are focused exclusively on the WTI futures price.

The swaps reflect a financial instrument which is an agreed-upon selling price for a specified volume of oil contracted in the future. The realized hedging losses are recorded in both net income and cashflow. The unrealized hedging losses represent an agreed-upon volume of oil multiplied by the difference between the current spot price on September 30, 2021 and the estimated strip pricing into 2025, which the company is responsible for reporting at the end of any reporting period. **While the unrealized hedging gains/losses are reported in net income, they are non-cash in nature and have no impact on the company's cashflow in any given period.** The company's hedge position acts as insurance locking in significant guaranteed cashflow and protecting Saturn should the price of oil fall below its swap price. In a bull market, this can result in current-period, non-cash unrealized losses; while in a bear market the inverse is true with resulting current-period, non-cash unrealized gains.

The collar creates a floor and a ceiling price on a given future date. Take the example of the Oct 1-21 to Jun 30-22 period. The combination of these two options provided a WTI $60/$64.50 producer with a costless collar for the delivery of 2,474 bbl/d at the minimum price of $60.00 and the maximum price of $64.60. Usually, these instruments are costless as the premium (cost) for the minimum agreed price is offset by the premium (credit) for the maximum price.

The MSW differential swap takes its route in the difference between the benchmark (WTI) and the product Canadian oil companies like Saturn Oil & Gas are predominantly selling (Mixed Sweet Blend – MSW light). This is of the upmost importance for companies producing in Alberta and Saskatchewan. The differential is influenced by the transportation costs, quality adjustments and macroeconomic variables. The swap limits the downside risk of the MSW being massively discounted due to an event such as limited pipeline capacity. As an example, the 2018 crisis shown below when the MSW light was trading at a negative differential of over $43.55.

WCS differential



Source: Alberta Government

The results of these swap, collar and differential swap strategies are a hedge not only on the oil price but also against an important surge in the difference between WTI and MSW. We believe that the company is using a healthy mix of derivative instruments in accordance with the sector's best practice.

Unrealized Non-Cash Loss on Derivatives

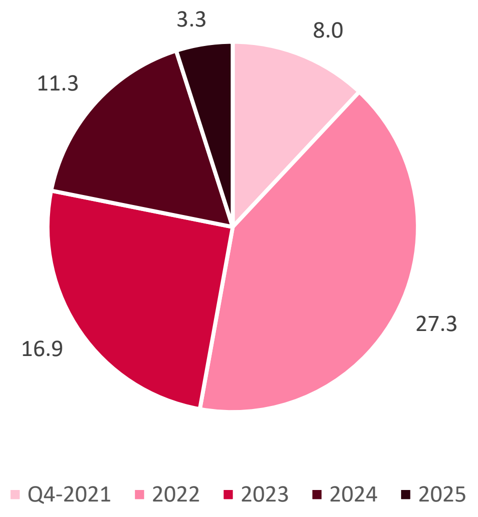
One consequence of using these derivatives instruments is their impact, positive or negative, on the company's financials. The company posted losses on derivatives of $66.76M CAD as per their Q3-2021 financial statement:

($CAD000)	Gross financial derivative instruments	Amount offset	Net financial derivative instruments
Current asset	2,371	(2,371)	-
Long term asset	15,938	(15,938)	-
Current liability	(32,104)	2,371	(29,733)
Long term liability	(52,963)	15,938	(37,025)
Net liability position	**(66,758)**	**-**	**(66,758)**

Source: Saturn Oil & Gas Q3-2021 financial statement – Note 16

The losses represent the future losses if all the hedge production had been sold at the future strip prices as at the end of Q3-2021. Therefore, these losses are non-cash and more an expectation of future losses that by accounting standards, must be incurred in the current period. Moreover, if we exit Q4-2021 with a lower oil price, the company will be posting financial gains. If oil prices remain at the same level in future periods, no losses will occur as they have already been incurred. In summary, the financial impact will vary from quarter to quarter but will be non-cash as the company slowly realizes their hedged position as we move forward in time.

Unrealized non-cash loss on derivatives by year ($M CAD)



Currently, the cash-realized hedge losses represent less than 10% of the total 2021 revenues.

Free Cash Flow of the Oxbow Asset

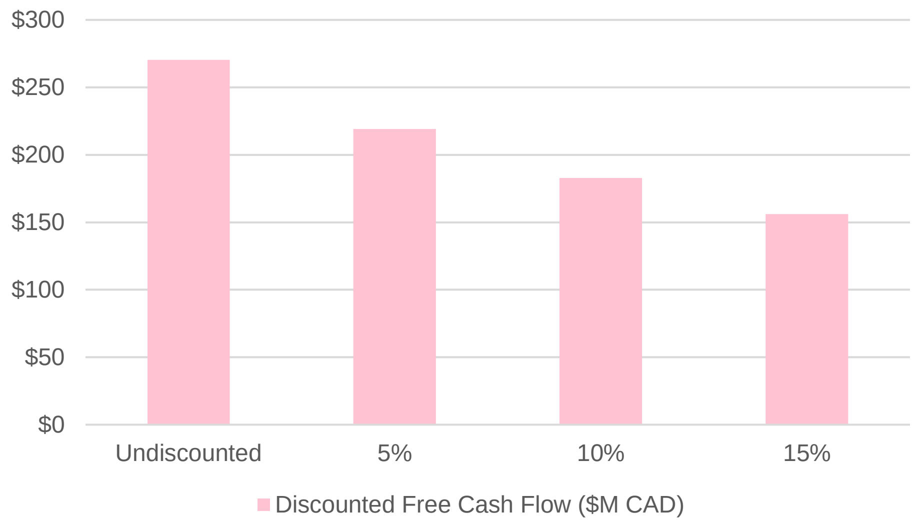
The maturity of the Oxbow asset allows for low-cost additions in a bear oil market with workovers of non-producing wells. In a bull oil-price market, the company can rapidly increase their production with new wells on drill-ready locations requiring minimum additional infrastructure.

A mature asset also helps with the prediction of an oil production decline as there is enough historical data available to have a core understanding of wells' future producing behavior.

These factors combined with the company's highly skilled operational workforce should result in a long, stable, declining production compensated by minimum capital deployment.

Free Cash Flow Forecast for the Oxbow Asset exclusively with 12% yearly production decline.

Free Cash Flow NPV Oxbow Asset



Sources: Saturn Oil & Gas, GBC AG

Our revised forecast, based on the company's Q3 results, gives a Free Cash Flow NPV of over $270M CAD undiscounted and over $156M CAD with 15% discount rate. More importantly, our calculations include the ARO expenditures, full debt repayment, derivatives losses and a linear production decline of 12% per year.

Based on the Q3 results. the company has unlocked FCF NPV of over $250M CAD for an equity financing of $32M CAD.

Saturn Oil & Gas acquired the Oxbow Asset for a purchase price of $14,084 per boe/d. Our current valuation of future FCF generated per boe/d is $38,355 CAD.

This valuation of the Oxbow asset is only a face value with minimum reinvestment and a decline rate of 12% per year without any capital spending to maintain or increase production. In our view, this is the indicator of the value of the transaction.

BALANCE SHEET MANAGEMENT

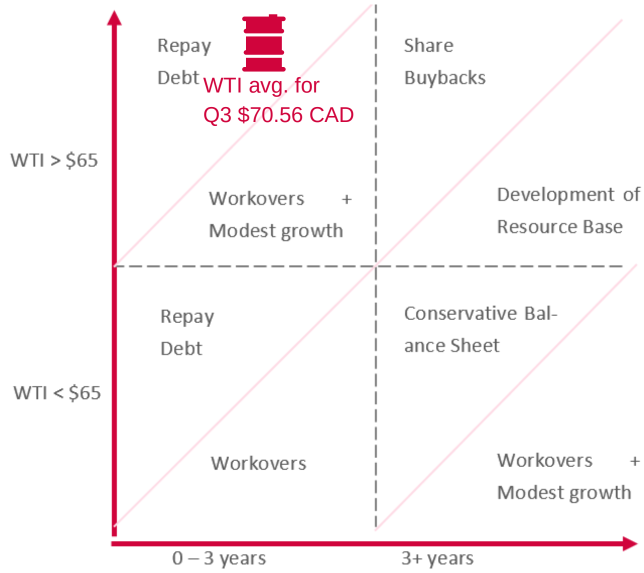
Saturn Oil & Gas three-year plan

With Q3 oil prices averaging $78 CAD a barrel, the company decided to invest in workovers and modest growth while focused on paying back debt. This is exactly what the company has presented investors with in their development strategy, with roughly 70% of cash flow directed in debt repayment and 30% towards production growth.

Saturn Oil & Gas is expected to continue this conservative approach of paying down debt with the goal of completing up to five new wells in Q4, all directed towards light oil targets at the Oxbow asset. The company has already returned over 20 previously inactive wells back into oil production and is running two service rigs full time into 2022 to reactivate hundreds more, overtime.

With drilling success and continued workovers, Saturn Oil & Gas' Q4 capital expenditure program could lead to a sizeable production increase for 2022 as the new wells will come on line in January.

Saturn Oil & Gas development strategy



Sources: Saturn Oil & Gas, GBC AG

The company has presented a clear roadmap of what investors can expect as of Free Cash Flow use. Furthermore, the company is a strong believer in the strategy of increased hedging. The company has announced additional hedging positions during the last quarter that exceed their debt repayment obligations. With the current downturn in oil, this management strategy is paying off.

Clearly, through their conservative balance sheet attitude, the company is well positioned not to repeat the mistakes that other oil and gas upstream companies have made over the past few years, which was to not establish a hard counter to price volatility, even more so the differential volatility and oil macroeconomics factors. Lastly, the company has secured access to capital that can allow them to swiftly react to business opportunities.

The fact that the company's management is not taking decisions according to the oil spot price but rather to leverage the spot price to achieve their long-term clear objectives is what we believe will make Saturn Oil & Gas a fierce oil producer to be reckoned with.

COMPANY PERFORMANCE AND FORECAST

Key figures in $M CAD	Q3 2021
Revenues	48.50
EBIT	6.55
EBIT-Margin	13.53%
Net income	-23.31

Sources: Saturn Oil & Gas, GBC AG

The company has posted a net loss of $23.307M CAD for the Q3-2021 period. This includes future derivates losses of over $20.908M CAD. The company EBIT was $6.55M CAD for an EBIT margin of 13.53%.

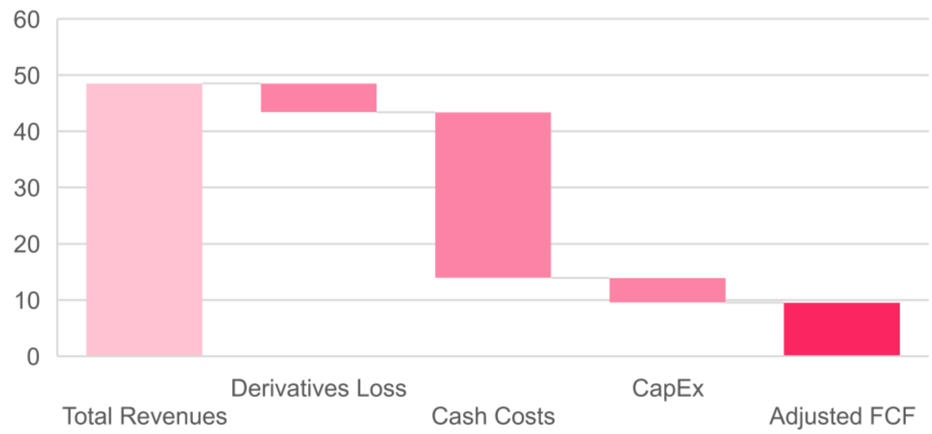
Quarterly results progress

($M CAD)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Revenues	2.09	1.61	1.32	12.59	48.50
Net Income	-0.79	-4.60	-1.53	-29.60	-23.31
Diluted EPS	-0.07	-0.39	-	-2.00	-1.00
Net profit margin (%)	-38.13	-285.21	-120.99	-270.32	-55.96
Cash on hand	0.34	0.56	0.26	5.36	14.31
Cost of revenue	0.52	0.49	0.27	4.17	17.83

Sources: Saturn Oil & Gas, GBC AG

The Q3-2021 revenue increase from Q2-2021 was fueled by higher oil prices, and higher production. It was the first full reporting period after the acquisition of the Oxbow asset, and demonstrated the full cash flow generation capability of the company currently. The company has produced an average of 6,970 BOE/d during Q3 2021 for a realized sale price of $75.85 CAD. The loss on the net profit margin decreased significantly. The cost of revenues is higher—but lower proportionally to the revenues.

Q3-2021 Adjusted Free Cash Flow ($M CAD)



Sources: Saturn Oil & Gas, GBC AG

The non-cash losses of future derivative instruments results in a worse earnings picture for Saturn Oil & Gas, however the company generated free cash of $9.5M CAD.

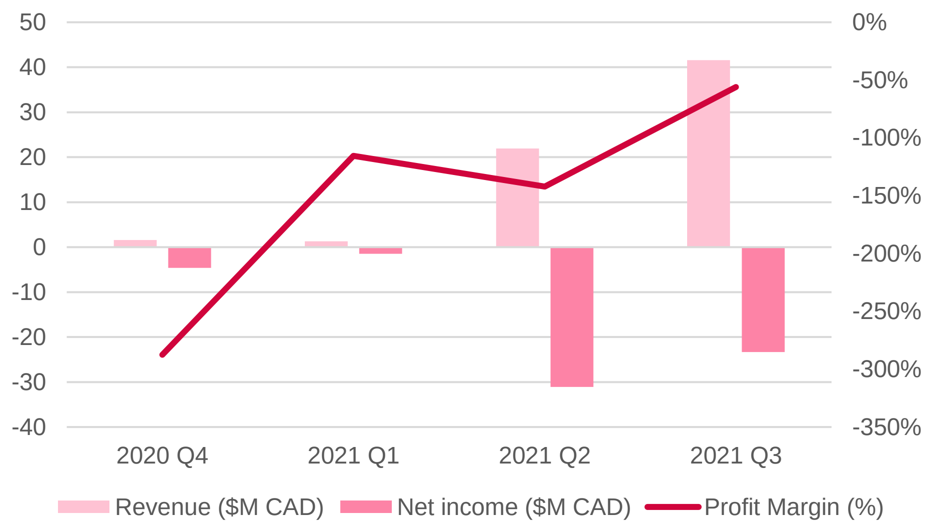
The company spent $7.1M CAD in capital expenditure. The company paid $2.66M CAD for post-closing adjustments to the Oxbow asset. They also spent $3.74M CAD for the drilling and completion of new wells. They spent $0.33M CAD on facilities and $0.09M CAD on land and lease.

The company exists in Q3 with $71.8M CAD net debt compared to $32.9M CAD as at December 31, 2020. **The company net debt-to-annualized funds flow is 1.3x compared to 33.3x at YE 2020.** This is an exceptional achievement, and confirms the low price paid by the company for the Oxbow acquisition and its value creation for shareholders.

As of the date of this report, the company has already repaid $15M of debt incurred in the acquisition.

Clearly, the company has improved their financials on all sides. The company profit margin has considerably risen with the acquisition of the Oxbow asset, just as the revenues have. The net income has dropped considerably as a direct consequence of derivatives instruments.

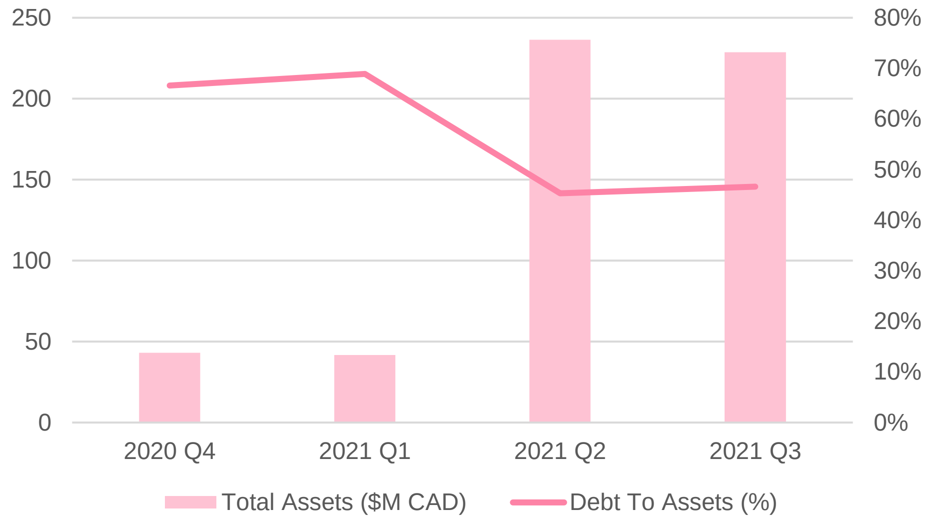
Revenues, net income and profit margin progress



Sources: Saturn Oil & Gas, GBC AG

Interesting enough, the company's debt-to-assets ratio has been significantly reduced since the acquisition and the repayment plan secured through hedging. Not only has the company reduced their debt-to-assets ratio while multiplying by five the size of their assets, but they have also done so by decreasing the chance of default. This means more assets and more security for the shareholders with lower leveraged assets.

Debt-to-total assets ratio



Sources: Saturn Oil & Gas, GBC AG

Forecast

Key figures in $M CAD	FY 2021e	FY 2022e	FY 2023e
Oil price	$69	$72	$73
Production	4,169	7,500	8,500
Revenues	105.62	197.10	226,48
EBITDA	36.67	74.81	83.88
EBITDA-Margin (%)	34.72	37.95	37.28
Net Debt	57.3	25.0	0

Sources: Saturn Oil & Gas, GBC AG

For FY 2021e, we are expecting the company to exceed $100M CAD in revenues. With the company's new wells coming into production, we believe an annual average of 4,169 boe/d for the year to be achievable.

We believe that the revenues will jump to around $197.10M CAD in 2022e and $226.48M CAD for 2023e. Moreover. the company should be debt-free by the end of 2023, making 2024 the first full year debt-free. **This would result in massive free cash flow generation.**

Key financials figures

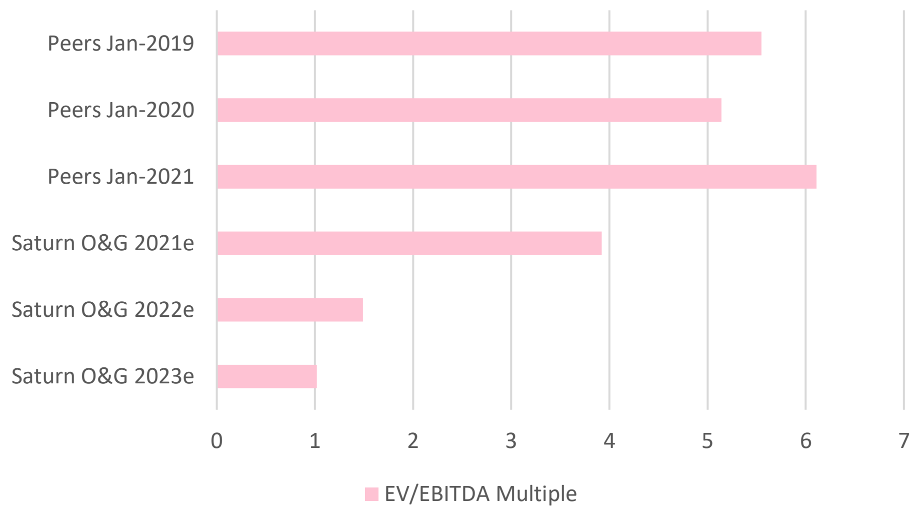
	FY2021e	FY2022e	FY2023e
EV	143.64	111.34	86.34
EBITDA	36.68	74.81	85.32
EV/EBITDA	**3.92**	**1.49**	**1.02**
Cash Flow/Share	**1.46**	**2.98**	**3.40**

Sources: Saturn Oil & Gas, GBC AG

With the current enterprise value of $143.64M CAD, the ratio to EBITDA is 3.92x for FY2021e, which is based on Saturn Oil & Gas owning the Oxbow asset for less than seven months. It is important to point out that the EV/EBITDA will change dramatically over the next 12 months.

We forecast this value to be 1.49x in FY2022e and reduced to 1.02 exiting FY 2023e. This almost 1/1 ratio is the lowest among Saturn Oil & Gas's peers and could indicate an important under valuation of the company by the market. This ratio has had an average between 5.14 and 6.11 as of January of the past three years.

EV/EBITDA for oil and gas production/exploration companies



Sources: Saturn Oil & Gas, Leonard N. Stern School of Business

The company adjusted cash flow per share would reach $2.98 CAD by YE2022e according to our estimates. This is very close to the current share price, indicating that the markets might not be currently giving full value for the Oxbow asset.

Earnings per share

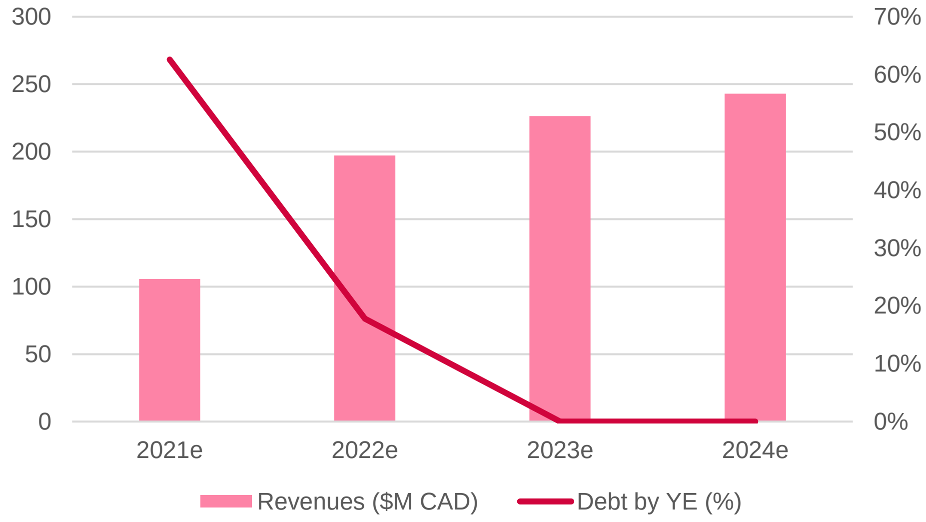
	FY2021e	FY2022e	FY2023e
Earnings	-60.46	7.78	25.38
Earnings before derivatives	7.54	7.78	25.38
EPS (excl. derivatives)	0.30	0.31	1.01

Sources: Saturn Oil & Gas, GBC AG

The company should achieve EPS of $-60.46 CAD for FY2021e according to our estimates. This is, however, not painting a true portrait of the current FY2021e as it includes the unrealized non-cash losses on derivatives instruments. We can clearly see the impact of these derivatives on the EPS since, when we remove these losses, the earnings per share are $0.30 CAD for FY2021e compared to $-2.41 CAD with the derivatives. FY2022e and FY2023e show no losses on derivatives and, consequently, show strong EPS for these two years.

This represents the true value unlocked for the shareholders by the Oxbow asset and the transition from a junior producer to a sizeable player in the Viking and Southeast Saskatchewan oil basins.

Debt repayment horizon



Sources: Saturn Oil & Gas, GBC AG

A LAUNCHPAD FOR SUSTAINING ECONOMIC GROWTH

In conclusion, with the current production rate and hedging strategy, the company is ready to overcome any black swan events for the next two years. The near future of the oil and gas sector will likely be one of volatility. The overall sentiment is that WTI prices could break the $100 USD mark in 2023. However, the recent events with OPEC and the Omicron variant have created a temporary bear market. Saturn Oil & Gas is well positioned for sustaining growth and could outperform their peers in a low oil price market but also increase production in a bull market.

Saturn Oil & Gas have stabilized and already grown their Oxbow asset production. The company has now successfully completed the integration of the Oxbow asset and is already, in our view, ready for the next growth phase.

Given the size of the company, their lean structure, and the support they have from both their shareholders and financiers, we have confidence the company will continue growing both organically and through M&A.

Target price: 12.17 CAD
Rating: BUY

ANNEX 1 - OXBOW ASSET ACQUISITION

In the following section we give a more detailed view of Saturn Oil & Gas' recent Oxbow asset acquisition. This is meant to give a more complete view of the transaction for those who prefer to read in detail about the companies they follow, while keeping the main section as concise as possible.

When acquiring the Oxbow Asset, the company pulled off a game-changing transaction. The new oil business model relies mainly on maximizing cash flow, reducing debt, and significantly increasing the shareholder value.

This results in maximizing the generation of Free Cash Flow by minimizing G&A, as well as outsourcing well maintenance, transportation, drilling, etc. to specialized crews under stringent supervision through the company.

One of the issues of the major upstream producers is their management teams. Typically, they grew their careers at a time when lean management was not the norm. They are used to captaining big ships with big crews and have a very long chain of command.

In our view, Saturn Oil & Gas' management represents the complete opposite and, by itself, this represents a unique opportunity. The company has been built by the new generation of leaders coming not from big executive teams but who see their position as offering services for the industry and their company in a highly competitive environment. We believe that this "running lean" philosophy which has allowed them to succeed and thrive in their previous ventures will also translate positively in their ability to maximize the Free Cash Flow generation of the Oxbow asset.

We believe that the two primary value levers for this transaction were organizational consolidation and free cash flow generation.

Free cash flow:
The free cash flow generation of the transaction is essentially relying exclusively on four factors to evaluate the success of this acquisition. Oil production, G&A, operational costs, and financing. Since most of the production is hedged, oil price royalties, financing costs and derivatives instruments can vary only slightly and can be considered as fixed.

Oil production:
As previously discussed, the company has delivered exactly as promised with an average production of almost 7,000 boe/d in Q3-2021. This confirms the company's understanding of the assets they bought, the evaluation of their real decline rate and shows the impressive capacity of Saturn's acquisition team to evaluate, conduct precise due diligence and understand in detail the assets they wanted to acquire. We believe that the company has chosen a very good and capable core deals team regarding oil production assessment, resource evaluation and have delivered on their promises regarding this acquisition.

G&A:
Another important factor to evaluate the success level of this transaction is to look at the G&A costs. This will help in understanding whether the company delivered on their seamless integration while keeping their DNA unchanged. The company had always reported lean G&A and the promise that the company's management made was to continue in this same direction throughout the acquisition and even improve if possible. They believed that they could realize economies of scale and run the newly acquired assets with minimal new hiring. In 2019, the upstream publicly traded companies across all exchanges had an average 25% of their annual revenues in G&A expenses. The median, which might be more

representative of the reality was 10%. Saturn Oil & Gas has exited the Q3-2021 with G&A costs of under 1.5%. This reduction of over 75% compared to pre-acquisition numbers clearly demonstrate their ability to stick to their "running lean" structure.

Operational costs:
The company has one of the lowest operating costs of its peer group. We believed this KPI to be a key indicator of the success of this transaction. The company posted very promising Q3-2021 results. We believe that operating costs could show improvements in a few quarters and we will keep closely monitoring the posted increase or decrease in operational costs. The company has posted one of the highest operating netbacks of their peers, which clearly underlines their great operation cost efficiency.

Financing:
Stated very simply, the company's ability to finance this transaction already speaks for itself. Not many companies would be able to acquire an asset for seven times the price of their market cap. Moreover, the company has chosen to agree to a very defensive financing, which is counter-intuitive in this industry. Most upstream companies want the highest correlation to the oil spot price. This leads them to conduct very unhealthy long-term M&As based either on the rainbow assumption that the oil price will constantly rise through time or they base their scenarios on an unrealistically high and unrealistically stable oil price. It is this model that has made the entire industry go belly up over the past few years and drastically limit the attractiveness of this sector. Saturn Oil & Gas has chosen a different approach. By hedging most of the production from this acquisition, the company has secured their downside risk while consciously leaving money on the table in case of a bull oil market. The management's philosophy has been to deliver long-term real value to investors and lay the foundation for predictable, steady revenues while providing an almost risk-free debt-repayment plan. Although, at first glance, the soaring of oil prices might have proven the company wrong in their strategy, the latest developments and high volatility of oil prices will confirm their strategy to have been a good one insofar as it does not jeopardize the company's future on fortune telling. Recent developments such as the fear of the new COVID variant, President Biden's oil policies and the deteriorating epidemic condition in Europe have led to massive setbacks in oil prices and proven the management's strategy to be ideal.

WTI historical price ($USD)

Source: Oilprice.com

Organizational consolidation

Portfolio high grading

The second primary value lever for this transaction was organizational consolidation. The company has successfully increased the value of their portfolio with the high quality and value of their newly acquired land and oil reserves. This can unlock serious development opportunities for Saturn Oil & Gas in the near future and secure them an enviable land ownership. Clearly, the company now has a lot more cards to play and can start implementing more complex value creation schemes such as strategic post-deal investments, divestments, and asset swaps.

More efficient capital allocation

One of the comments we heard repeatedly during our site visit was the lack of new capital deployed on this asset. We heard ideas, plans and strategies that employees had worked on intensively only to be denied any capital expenditure by the previous owner. We believe that Saturn Oil & Gas' management will review these proposals and deploy capital where their newly acquired team has put their greatest efforts, resulting in more attractive development opportunities. Saturn Oil & Gas is committed to the realization of the true potential of their assets. We believe that this high value asset will get the recognition and capital it deserves from the company as well as a motivated team to implement innovative and ingenious development plans to maximize the Oxbow asset.

In view of our analysis of the company's Q3-results, there is no doubt that this acquisition is a success both for the company and for shareholders.

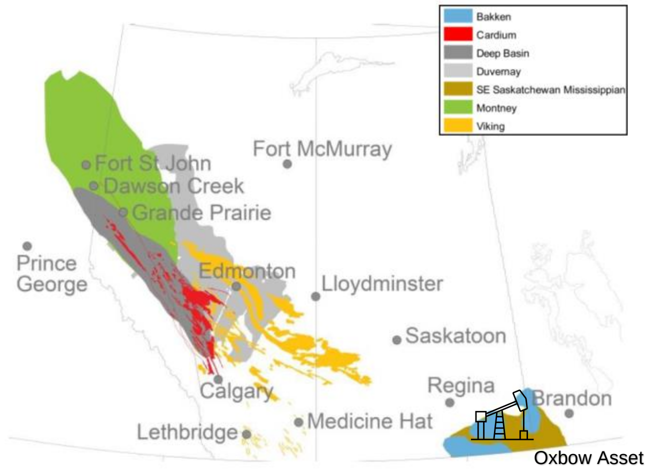
The value creation proposed by the company is being realized and the company is delivering lean and dynamic management abilities.

The Oxbow asset acquisition integration has been completed and will serve as the backbone of the next growth phase.

We believe Saturn Oil & Gas possesses all the crucial success factors to thrive in the rapidly changing and highly volatile current oil price environment.

ANNEX 2 - ANALYST SITE VISIT COMMENTS

Canada's oil fields map



Sources: BMO capital markets and GBC AG

The new offices are located in Carlyle, Saskatchewan

Source: GBC AG

We had the chance to visit the newly acquired Oxbow Asset in September 2021. The site visit included a complete tour and presentation of new management as well as a trip to production assets, pads, facilities and an introduction to many employees and contractual companies. The assets visited were located in a fairly concentrated area around the small town of Carlyle. We also engaged with the local community to understand their perception of the company and their arrival in their community.

The newly acquired offices

Source: GBC AG

GBC AG's analyst Julien Desrosiers' on-site visit

Source: GBC AG

Current state of Oxbow Asset

We were impressed with the quality of the assets acquired. The infrastructure is in pristine condition which held true for every single site we visited. We previously described the assets as: *The infrastructure that will be acquired by Saturn has a strong history of upkeep and maintenance by the previous owner and does not require any major upgrades or refurbishments.* We can now confirm that this is not only correct but the quality of the assets and especially maintenance exceeded our expectations.

Saturn Oil & Gas exploitation site

Source: GBC AG

Diverse newly acquired installations

Source: GBC AG

The local community

The news of the acquisition was well received in the region. This asset was not considered core by the previous owners and, even if they had maintained all equipment, facilities, and infrastructure in the best condition, they had not injected additional development capital for a long time. Therefore, the new blood injected into the region by Saturn Oil & Gas was much welcomed and the comments we heard were only positive. The local community has a strong agricultural as well as oil and gas background and both sectors usually fit easily with one another to form coherent economic development. The steady income for farmers of the lease of a small part of their land to oil companies complements their volatile revenues from their main activity.

The community seems to be looking forward to more capital spending in their region and the employees that are now under new management seemed to have very precise and efficient strategies to maximize the potential of this asset.

As core values of investors are more and more driven by sustainability, we were very pleased to assess in person the support of the local community towards Saturn Oil & Gas—from employees and various stakeholders to community members. They seem to desire far more development and capital injection in their area and are ready to take active steps in this direction.

Carlyle community and downtown

Source: GBC AG

Integration of human capital from the Oxbow Asset

One can expect that thousands of producing wells and additional assets would require heavy manpower to maintain. However, nothing could be farther from the truth. In total, Saturn Oil & Gas now has 45 field employees in Saskatchewan that report to two superintendents and one operations manager who reports directly to the CEO. As most of the wells are connected to a pipeline system, the assets are also very low maintenance. As a result, the company is able to maintain a lean management structure, increase cost efficiency and run their operations better than before. The Oxbow asset workers have been working on those fields for years, if not decades. They are very well versed technically as well as on the specifics of these oil fields. Therefore, they do not constitute a dilution in the company's talent pool but rather an increase in their human capital.

Saturn Oil & Gas employees and subcontractors

Source: GBC AG

Partnership with Watchdogs

The company is using Afti' Watchdog technology at many of their production sites and have initiated a full rollout. This technology allows Saturn Oil & Gas to monitor their wells 24/7 with a webcam live feed. During our site visit, we had the chance to witness the details and result analyses and reports that this product generates. We are convinced that this is a revolutionary product and Saturn Oil & Gas, as early adopters of this technology, will benefit greatly from it.

Firstly, it will be beneficial to limit environmental issues that could arise at the wells by decreasing the time between a possible leak and human intervention. Secondly, it allows the company to monitor their operations with different electronic sensors at a completely new level. Thirdly, in case of an incident, the well can be shut down remotely. This will further increase the efficiency of their team given that most physical and visual inspection will be able to be conducted remotely. This means that there is less time spent driving to inspect operations sites, fewer emissions and fewer accidents. This will further add to the lean structure and low operation costs of the company.

At minimal cost, we believe that the company added a massive protection layer onto their operations. Once again, Saturn Oil & Gas has shown their level of commitment to their assets and core sustainability values.

Watchdog equipment installed on production wells

Source: GBC AG

VALUATION

Model assumptions

Saturn Oil & Gas was valued by us using a three-stage DCF model. Starting with the concrete estimates for the years 2021 - 2023 in phase 1, the forecast is made from 2024 to 2028 in the second phase by applying value drivers. We expect annual revenue growth of 7.5%. We have assumed a target EBITDA margin of 37.67%. We have considered a tax rate of 15.0 % in phase 2. In the third phase, a residual value is also determined after the end of the forecast horizon using the perpetual annuity. In the terminal value, we assume a growth rate of 1.0 %.

Cost of capital

The weighted average cost of capital (WACC) of Saturn Oil & Gas is calculated from the cost of equity and the cost of debt. To determine the cost of equity, the fair market premium, the company-specific beta and the risk-free interest rate must be calculated.

The risk-free interest rate is derived from current yield curves for risk-free bonds in accordance with the recommendations of the Fachausschuss für Unternehmensbewertungen und Betriebswirtschaft (FAUB) of the IDW. This is based on the zero bond interest rates published by the Deutsche Bundesbank using the Svensson method. To smooth short-term market fluctuations, the average yields of the previous three months are used and the result rounded to 0.25 basis points. **The currently used value of the risk-free interest rate is 0.25. At the same time, the current value currently represents the lower limit in our valuation model.**

We use the historical market premium of 5.50% as a reasonable expectation of a market premium. This is supported by historical analyses of equity market returns. The market premium reflects the percentage by which the equity market is expected to yield better than low-risk government bonds.

According to the GBC estimation method, a beta of 1.49 is currently determined.

Using the assumptions made, we calculate a cost of equity of 8.42% (beta multiplied by risk premium plus risk-free interest rate). Since we assume a sustainable weighting of 60% for the cost of equity, the weighted average cost of capital (WACC) is 8.62%.

Valuation result

Based on our DCF valuation model, we have determined a target price of CAD 12.17.

DCF Model

Saturn Oil & Gas - Discounted Cashflow (DCF)

Value driver of the DCF model after the estimate phase:

consistency - Phase	
Sales growth rate	7.5%
EBITDA-Margin	37.7%
Depreciation to fixed assets	15.0%
Working Capital to Sales ratio	30.0%

final - Phase	
Eternal growth rate	1.0%
Eternal EBITDA-Margin	22.2%
Eternal effective tax rate	15.0%

Three phases DCF Model:

Phase	estimate			consistency					terminal
in M CAD	FY 21e	FY 22e	FY 23e	FY 24e	FY 25e	value	FY 27e	FY 28e	value
Sales	105.62	197.10	226.48	243.47	261.73	281.36	302.46	325.14	
Sales changes	1299.2%	86.6%	14.9%	7.5%	7.5%	7.5%	7.5%	7.5%	1.0%
Sales to fixed assets	0.55	0.95	0.90	0.90	0.90	0.90	0.90	0.90	
EBITDA	36.67	74.81	85.32	91.72	98.60	106.00	113.95	122.49	
EBITDA-Margin	34.7%	38.0%	37.7%	37.7%	37.7%	37.7%	37.7%	37.7%	
EBITA	20.38	43.49	48.50	54.04	58.09	62.44	67.13	72.16	
EBITA-Margin	19.3%	22.1%	21.4%	22.2%	22.2%	22.2%	22.2%	22.2%	22.2%
Taxes on EBITA	-0.15	7.00	-7.28	-8.11	-8.71	-9.37	-10.07	-10.82	
Taxes to EBITA	0.7%	-16.1%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBI (NOPLAT)	20.23	50.50	41.23	45.93	49.37	53.08	57.06	61.34	
Return on capital	206.4%	37.7%	22.5%	17.4%	14.4%	14.4%	14.4%	14.4%	13.5%
Working Capital (WC)	-59.42	-24.66	13.37	73.04	78.52	84.41	90.74	97.54	
WC to Sales	-56.3%	-12.5%	5.9%	30.0%	30.0%	30.0%	30.0%	30.0%	
Investment in WC	27.53	-34.77	-38.03	-59.67	-5.48	-5.89	-6.33	-6.81	
Operating fixed assets (OAV)	193.23	208.24	251.24	270.09	290.34	312.12	335.53	360.69	
Depreciation on OAV	-16.29	-31.32	-36.82	-37.69	-40.51	-43.55	-46.82	-50.33	
Depreciation to OAV	8.4%	15.0%	14.7%	15.0%	15.0%	15.0%	15.0%	15.0%	
Investment in OAV	-167.84	-46.32	-79.83	-56.53	-60.77	-65.33	-70.23	-75.49	
Capital employed	133.81	183.58	264.62	343.13	368.86	396.53	426.27	458.24	
EBITDA	36.67	74.81	85.32	91.72	98.60	106.00	113.95	122.49	
Taxes on EBITA	-0.15	7.00	-7.28	-8.11	-8.71	-9.37	-10.07	-10.82	
Total investment	-140.31	-81.09	-117.86	-116.20	-66.25	-71.22	-76.56	-82.30	
Investment in OAV	-167.84	-46.32	-79.83	-56.53	-60.77	-65.33	-70.23	-75.49	
Investment in WC	27.53	-34.77	-38.03	-59.67	-5.48	-5.89	-6.33	-6.81	
Investment in Goodwill	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Free Cash flows	-103.79	0.73	-39.81	-32.58	23.64	25.41	27.32	29.37	752.90

Value operating business (due date)	430.45	466.83
Net present value explicit free cash flows	8.39	8.39
Net present value of terminal value	422.06	458.44
Net debt	125.39	161.36
Value of equity	305.06	305.47
Minority interests	0.00	0.00
Value of share capital	305.06	305.47
Outstanding shares in m (fully diluted)	25.10	25.10
Fair value per share in CAD	12.15	**12.17**

Cost of Capital:

Risk free rate	0.3%
Market risk premium	5.5%
Beta	1.49
Cost of Equity	8.4%
Target weight	60.0%
Cost of Debt	12.5%
Target weight	40.0%
Taxshield	28.7%
WACC	**8.6%**

Return on capital	WACC				
	8.0%	**8.3%**	**8.6%**	**8.9%**	**9.2%**
13.0%	13.58	12.46	11.44	10.50	9.63
13.3%	13.99	12.85	11.81	10.84	9.96
13.5%	14.40	13.24	**12.17**	11.19	10.29
13.8%	14.81	13.62	12.53	11.53	10.61
14.0%	15.22	14.01	12.90	11.88	10.94

ANNEX

I.
Research under MiFID II
1. There is a contract between the research company GBC AG and the issuer regarding the independent preparation and publication of this research report on the issuer. GBC AG is remunerated for this by the issuer.
2. The research report is simultaneously made available to all interested investment services companies.

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Section 2 (I) Updates
A detailed update of the present analysis/analyses at any fixed date has not been planned at the current time. GBC AG reserves the right to update the analysis without prior notice.

Section 2 (II) Recommendation/ Classifications/ Rating
Since 1/7/2006 GBC AG has used a 3-level absolute share rating system. Since 1/7/2007 these ratings relate to a time horizon of a minimum of 6 to a maximum of 18 months. Previously the ratings related to a time horizon of up to 12 months. When the analysis is published. the investment recommendations are defined based on the categories described below. including reference to the expected returns. Temporary price fluctuations outside of these ranges do not automatically lead to a change in classification. but can result in a revision of the original recommendation.

The recommendations/ classifications/ ratings are linked to the following expectations:

BUY	The expected return. based on the derived target price. incl. dividend payments within the rel 10%.
HOLD	The expected return. based on the derived target price. incl. dividend payments within the rel 10% and < + 10%.
SELL	The expected return. based on the calculated target price. incl. dividend payments within the <= - 10%.

GBC AG's target prices are determined using the fair value per share. derived using generally recognized and widely used methods of fundamental analysis. such as the DCF process. peer-group benchmarking and/or the sum-of-the-parts process. This is done by including fundamental factors such as e.g. share splits. capital reductions. capital increases. M&A activities. share buybacks. etc.

Section 2 (III) Past recommendations
Past recommendations by GBC on the current analysis/analyses can be found on the internet at the following address:
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Section 2 (IV) Information basis
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