



Research Report (Transaction update)

Saturn Oil & Gas Inc.



"Oxbow acquisition is transformative and will transform Saturn Oil & Gas into a leading producer and land holder throughout Saskatchewan"

Target Price: TBA soon

Rating: TBA soon

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 5

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: 18/05/2021 (12:30 pm)

Date and time of first distribution: 18/05/2021 (02:00 pm)

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

Rating: TBA
Target price: tba

Current price: 0.155
17/05/2021 / TSXV / 16:30
Currency: CAD

Key Data:

ISIN: CA80412L1076
WKN: A2DJV8
TSX.V: SOIL
FSE: SMK
Number of shares³: 297.21
Marketcap³: 46.07
³ in m / in m CAD /

Primary listing: TSX-Venture
Secondary listing: Frankfurt

Accounting Standard:
IFRS

FY End: 31/12/

Analysts:

Julien Desrosiers
desrosiers@gbc-ag.de

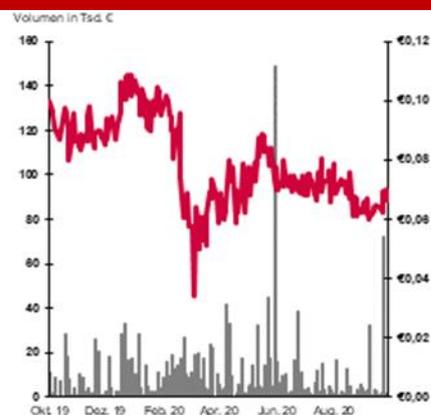
Felix Haugg
haugg@gbc-ag.de

Company Profile

Sector: Energy
Focus: Oil & Gas

Headquartered in Calgary, Alberta

Management: John Jeffrey (CEO), Justin Kaufmann (VP Exploration), Stuart Houle (VP Engineering)



Saturn Oil & Gas acquires the Oxbow asset

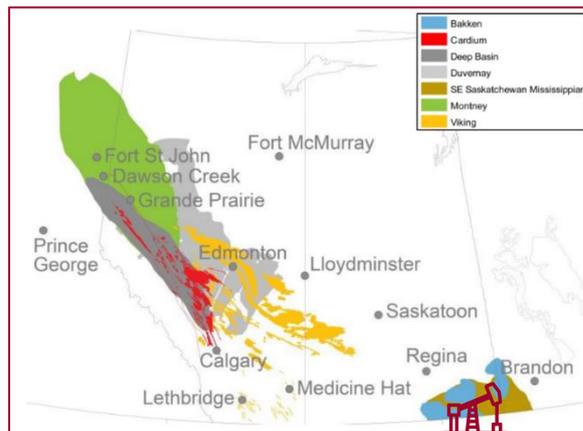
Saturn Oil & Gas has entered into an agreement to purchase the Oxbow assets for approximately 93M CAD. The Oxbow's assets are located in Southeast Saskatchewan and consist of 450 sections of land which produce approximately 6700 boe/d. The Oxbow property is a mature asset that has extensive infrastructure and facilities with direct pipeline connections to the global sales network. Through the transition Saturn will also be hiring all the employees who are currently working on the properties, thus ensuring a smooth transition in daily production and operations. Saturn Oil & Gas, after the closing of the transaction, will become a major player in the southeast Saskatchewan oilfield, comparable in size to Headwater Exploration, Yangarra Resources and Topaz Energy. More importantly Saturn Oil & Gas estimated 2021 production will consist of 95% liquid oil and only 5% gas.

The 5 main highlights of the transaction include:

1. Over 2,000% increase in daily boe production.
2. Lean and cost efficiency structure.
3. Prime assets with proven low depletion rates.
4. Pipeline to international markets.
5. Significant reduction in debt leverage of the company.

These assets in our opinion will also be generating a massive positive cashflow, allowing for both the maintenance of the oil production at current level and the initiation of an aggressive debt pay-back program.

Canada's oil fields map



Source: BMO capital markets, GBC AG



Oxbow assets location

TRANSACTION KEY ELEMENTS

	Before	Oxbow Assets	After transaction	Performance
Approx. Production (boe/d)	375	6,700	7,500	+2,000%
Reserve PDP (mmboe)	0.67	24.19	24.86	+3,710%
Ready to drill locations	128	444	572	+447%
Wells recompletion potential	2	500	502	+25,000%
Decline rate (%)	14	12	12	-2%
Debt (M)	25	82	102	+408%
Hedging	0%	85% of new Asset production	70% year 1 60% year 2 50% year 3	-
Direct connection to pipeline	None	LACT connected	LACT connect	-
Liabilities (MM)	3.1	180.0	183.1	+5,906%
Liquid Oil Component	100	95	95%	-5%

Table1; Source: GBC

Financing

Acquisition costs

The total acquisition costs are approximately 102M CAD composed of the following elements: 93M CAD as purchase price and 9M CAD in additional fees.

Financing

The financing of the transaction will be completed in 3 parts; previous earned cash flow, debt and capital raised. The effective date of the acquisition is April 1, 2021, meaning from this date forward all profits made from the production of the acquired assets are transferred to Saturn Oil & Gas. This amount is estimated at 14.7M CAD. The second part is a senior debt of 82M CAD secured by Saturn Oil & Gas assets. This debt runs at an interest rate of 11% + Prime adjusted quarterly for three (3) years, therefore corresponding to a 12.50% annual interest rate. The third part of the financing will be raised capital, which is currently underway. Saturn Oil & Gas is intending to complete a private placement of 15M CAD, with a second capital raise undertaken simultaneously with Echelon Wealth Partners Inc. to complete a 6M CAD best effort private placement.

Hedging

One of the most important part of the financing in our opinion resides in the hedging of up to 85% of the newly acquired production. This production is expected to decline at a yearly rate of 12% meaning that year two, 74.8% of the production should be hedged, year three 65.8% and the fourth year 57.9% respectively. These hedging estimates are based on a Capex budget of \$5 million per year. The corresponding revenues and expected profits can be viewed in the following table:

Estimated Hedging impact on Yearly Debt Repayment

	New asset estimated Production (boe/d)	Hedge (%)	Barrel Of Oil Price (\$ USD)	Estimated Hedging Price/boe (\$CAD)	Estimated guaranteed Revenues (MCAD)	Estimated profits (M CAD)	Estimated Debt Costs (M CAD)	Estimated Debt Capital Repayment (M CAD)
Year 1	6,700	85%	\$60.00	\$72.60	\$150.91	\$74.37	\$11.05	\$63.32
Year 2	5,900	85%	\$60.00	\$72.60	\$132.89	\$65.49	\$12.75	\$52.74
Year 3	5,000	85%	\$55.00	\$66.55	\$103.24	\$46.12	\$14.45	Fully Paid in Year 2
Year 4	4,400	85%	\$55.00	\$66.55	\$90.85	\$40.58	\$14.45	Fully Paid in Year 2

Source: GBC estimate

Production

As seen in the previous table, we estimate the yearly production to decline at an average of 12% rate. However, this table doesn't include the current production and any capital deployment to increase oil production. This is purely from the transaction. For the total expected production, please refer to table 1.

The acquired assets allow the company to continuously have two options available when increasing the oil production; recompletion of existing wells and the drilling of new wells and inventory. Saturn will acquire 450 sections of land and increase their land base by 775%. Identified with the newly acquired assets is over 444 drill targets (244 booked & 200 un-booked). At current oil prices the capital expenditure for these new drills will according to our estimates be paid off in as quick as 7 months and generate over half a million CAD profit during their lifetime. As for wells recompletion, they require very little capital expense and allows to extract the full potential of wells pre-maturely shut-in.

Transaction value benchmark

The price paid per boe produced per of Canadian oil & gas assets acquisition has been decreasing in value continuously since Q1 2015, fallen from a price of over \$80,000 per boe to \$20,000 boe in Q3 2020.

Merger and acquisition trend in Canadian oil assets over \$20M CAD



Source: BMO capital markets, GBC-AG

Saturn Oil & Gas is acquiring the Oxbow assets producing 6,700 boe/d for \$93M CAD which results in a price of \$13,731 per boe/d. Based on historical transaction data, as per the graphic above, this transaction would be on of the cheapest EV/Production transaction for any acquisition over \$20M CAD within the last 5 years.

A launchpad for sustaining economic growth

This transaction is without saying, transformative for the company. Acquiring assets more than ten (10) times their own size will spark a new life for Saturn Oil & Gas. It can be legitimately considered as a completely new company. As discussed by the company CEO, John Jeffrey, in our interview (<http://www.more-ir.de/d/22451.pdf>), this transaction took time and devotion from the entire team to materialize. The company was working on this deal when oil prices were under \$45 CAD during very uncertain times.

The most impressive accomplishment of the company is to have secured the acquisition of very profitable assets at a very favorable price and concurrently being able to hedge up to 85% of the new production which allows them to repay the financing debt within 2 years. This is the key to unlock a new growth phase for the company, as it allows the company to focus exclusively on their core values while maximizing oil production and lowering costs. This transformative transaction will change the face of the company and allow Saturn to overcome a lot of the hardships Canadian oil companies have faced in the past, thus transitioning to a new and improved company.

With the same management staff with a proven record of being one of the best operators in the region, we believe that this transaction unlocks a completely new era in the history of the company. This transaction, in our opinion, is the launchpad of sustainable and economic growth.

We will publish a further valuation update on Saturn Oil & Gas share with rating and target price soon.

Note: On 5/19/2021, 4 p.m (CEST, UTC+2) Saturn Oil & Gas Inc. will give a presentation on the announced transformative acquisition of the "Oxbow" oil field as part of a digital roadshow. Interested parties can register for the webinar at the following link: https://zoom.us/webinar/register/WN_iqX5b5Z0TeK0CMOJwat23w

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.

II.

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BUY	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $\geq + 10\%$.
HOLD	The expected return, based on the derived target price, incl. dividend payments within the relevant time horizon is $> - 10\%$ and $< + 10\%$.
SELL	The expected return, based on the calculated target price, incl. dividend payments within the relevant time horizon, is $\leq - 10\%$.

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The analysts responsible for this analysis are:

Julien Desrosiers, Financial Analyst

Felix Haugg, B.A., Financial Analyst

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GBC AG
Halderstraße 27
D 86150 Augsburg
Tel.: 0821/24 11 33-0
Fax.: 0821/24 11 33-30
Internet: <http://www.gbc-ag.de>

E-Mail: compliance@gbc-ag.de



GBC AG®
- RESEARCH & INVESTMENT ANALYSEN -

GBC AG
Halderstraße 27
86150 Augsburg
Internet: <http://www.gbc-ag.de>
Fax: ++49 (0)821/241133-30
Tel.: ++49 (0)821/241133-0
Email: office@gbc-ag.de