



Research Note

Saturn Oil & Gas Inc.



Saturn Oil & Gas Inc. Confirms Closing of Previously Announced Transformational Acquisition of Southeast Saskatchewan Light Oil Assets

Target Price: 0.46 CAD

Rating: buy

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: 08/06/2021 (13:26 h)

Date and time of first distribution: 08/06/2021 (14:30 h)

Target price valid until: max. 31/12/2021

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

Rating: BUY
Target price: 0.46 CAD

Current price: 0.18
07/06/2021 TSX / 16:38
Currency: CAD

Key Data:

ISIN: CA80412L1076
WKN: A2DJV8
TSX.V: SOIL
FSE: SMK

Number of shares³:
Pre transaction fully diluted
234.50
Post transaction diluted esti-
mation: 530.00

Marketcap³:
Pre transaction: 39.88
Post transaction: 90.10

³ in m / in m CAD /

Primary listing: TSX-Venture
Secondary listing: Frankfurt

Accounting Standard:
IFRS

FY End: 31/12/

Analysts:

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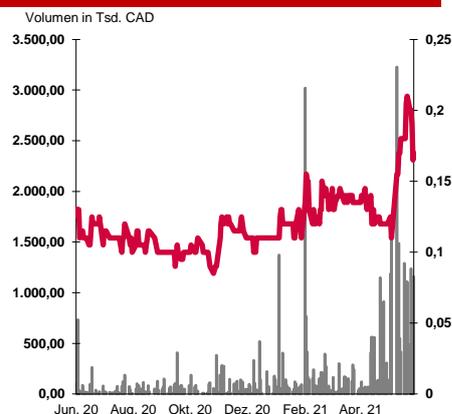
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Company Profile

Sector: Energy
Focus: Oil & Gas

Headquartered in Calgary, Alberta

Management: John Jeffrey (CEO), Scott Sanborn (CFO),
Justin Kaufmann (VP Exploration), Stuart Houle (VP Engi-
neering)



Saturn Oil & Gas is a Canadian exploration and development company. The Company holds licenses for oil and gas exploration in west-central, Saskatchewan. Saturn Oil & Gas Inc. is an energy company focused on the acquisition and development of undervalued, low-risk assets. Saturn plans to build strong cashflow through strategic land positions and acquisitions.

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 currently produce nearly 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.

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.

More importantly, Saturn Oil & Gas 2021e production will consist of 95% liquid oil and only 5% gas.

P&L in CAD m FY	FY 2020	FY 2021e	FY 2022e	FY 2023e
Sales	7.55	146.58	180.61	178.15
EBITDA	-1.31	102.96	117.44	112.25
EBIT	-1.311	77.958	89.940	82.004
Net Income	-3.310	51.304	69.012	66.303

SATURN OIL & GAS

Saturn Oil & Gas Inc. successfully closes the acquisition of the Oxbow Assets

Saturn Oil & Gas Inc. announced that it has successfully closed the previously announced transformational acquisition of the Oxbow assets in Southeast Saskatchewan from Crescent Point Energy Corp. As discussed in our recent Transaction Update (<http://www.more-ir.de/d/22491.pdf>) Saturn acquired approximately 6,700 boe/d (~95% light oil and liquids)¹ with over 450 net sections of land.

Total consideration for the Acquisition was \$93 million. As previously announced in the Company's press releases dated May 13, 2021, May 17, 2021, May 28, 2021 and June 4, 2021, the Acquisition was funded through proceeds from an \$87.0 million senior secured term loan, as well as a brokered and non brokered private placement which collectively raised total gross proceeds of \$32.8 million. The Senior secured term loan was subscribed by a New York based Family Office.

Placement details

	Brokered Placement	Non-Brokered Placement
Subscription receipts	115.000.000	153.333.333
Price	0,12 CAD	0,12 Cad
Aggregate proceeds	13,8M CAD	18,4M CAD
Special Warrant	1:1	1:1
Add. Common Share (from Special Warrant)	115.000.000	153.333.333
Add. Warrant Share @0,16 CAD (from Special Warrant)	115.000.000	153.333.333

Source: Saturn Oil + Gas, GBC AG

- Saturn forecasts 24-month free cash flow enough to repay senior term loan and subordinated notes in full
- Mission is to continue to be an acquirer of accretive assets in Western Canada
- Acquisition builds on Saturn's existing environmental, social and governance ("ESG") performance, while supplying responsibly-produced Canadian crude oil to service global market demand

"The closing of this transformational acquisition has truly elevated Saturn to new heights and put our mark on the map for a very attractive purchase price," said John Jeffrey, CEO of Saturn. "We have added high-quality, light oil assets to our portfolio, which now features a robust long-term inventory of future development drilling targets that are highly economic at current commodity prices. The Saturn team is excited about the opportunity to generate compelling returns for our shareholders, while helping to meet the world's growing energy needs in an environmentally responsible manner under Canada's stringent regulatory regime."

Strategic Acquisition Highlights

The Acquisition enhances Saturn's financial and operational strength through the addition of a high-quality and very low decline (12%) light oil asset base that is projected to

¹ As at April 1, 2021 Production report. Comprised of 6,197 bbls/d of light and medium crude oil, 149 bbls/d of NGLs, and 2,165 mcf/d of conventional natural gas.

generate robust free cash flow at current prices. Further, the Acquisition is aligned with the Company's strategy to acquire and develop undervalued, low-risk opportunities that support the building of a strong portfolio with strategic development upside. The Oxbow Assets produce primarily from the Frobisher and Midale formations, feature a sizeable inventory of targets for workover, development and optimization, and are expected to generate \$65-70 million in net operating income² over the next 12 months³.

In addition to acquiring the assets for an attractive purchase price, the Acquisition positions Saturn as one of the leading producers and land holders in Southeast Saskatchewan, offering investors exposure to numerous benefits, including:

- Production increase of more than 2,000% over current volumes, with over 1,300% PDP reserves growth compared to the Company's year end 2020 reserves.
- Land base increase of 775% with more than 180% growth in booked drilling locations.
- Exposure to a conventional multi-zone asset base concentrated in the Midale / Frobisher formations with a large, identified low-risk drilling inventory of highly economic light oil plays⁴, significant workover opportunities, and competitive forecast returns.
- The potential to generate significant annual free cash flow through the optimization and recompletion of more than 500 existing well bores over the next three years with low capital expenditures. Saturn anticipates directing approximately \$5 million of annual workover capex to maintain current production levels.
- Locked-in area economics with approximately 70% of forecast production hedged over the next year, 60% for the second year and approximately 50% for years three and four with incremental volumes from growth capital fully exposed to commodity prices.
- Expanded scale provides increased strategic optionality to adapt to changing market conditions while financial capacity is improved due to increased cash flow generation and low leverage as Saturn anticipates being debt free in 24 months based on current strip pricing.
- A strong infrastructure position with multiple sales points and capacity for future growth with 60 owned, operated and well-maintained key production facilities with excess capacity.
- Strengthened environmental, social and governance ("ESG") performance, supported by minimal freshwater usage due to no fracture stimulations and future potential to initiate an enhanced oil recovery initiative using only produced water. The Company's surface footprint will be minimized due to pipeline-connected, multi-well pad development of the Oxbow Assets, and liability clean up will be accelerated with the support of over \$10 million of federal Accelerated Site Closure Program funding.

² See "Non-IFRS Measures" under "Reader Advisory" below".

³ Estimated Net Operating Income derived using assumed operating netback in respect of the Assets of \$28.13/boe. Estimated operating netback was derived using estimated go-forward royalties and operating costs utilizing May 5, 2021 strip pricing which averages US\$64.29/bbl; an MSW/WTI differential of US\$5.00/bbl; an AECO price of \$2.80/GJ; and a USD/CAD exchange rate of \$1.23 all for the forecasted 12-month period from the Effective Date of April 1, 2021. The operating cost and royalty utilized for the operating netback calculation is \$26.49/boe and \$7.53/boe (or 11.75% of oil and gas revenue), respectively.

⁴ Midale/Frobisher/Alida/Spearfish/Tilston/Red Jacket locations in SE Saskatchewan.

Financings

The \$87.0 million senior secured term loan was subscribed by a New York based Family Office.

Prudential Capital Energy Partners, L.P. agreeing to subordinate its current loans, waiver certain prior loan defaults, extend out the maturity of their existing revolving note facility and cancel 30,505,122 existing share purchase warrants with an exercise price of \$0.235 and an expiry of Sept 14, 2022.

Prudential will be granted 43,800,000 million common share purchase warrants at a \$0.16 exercise price with expiry at the earlier of the maturity date of the loan (November 2024) or 12 months after early repayment of the loan facility.

Advisors

Alvarez & Marsal Canada Securities ULC ("A&M") acted as exclusive financial advisor to Saturn with respect to the Senior Secured Term Loan and the Acquisition, while Dentons Canada LLP acted as Saturn's legal counsel in connection with the Acquisition, the Private Placements and the Senior Secured Term Loan.

A&M is entitled to receive 3,000,000 compensation special warrants.

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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This information can also be found on the internet at the following address:

<http://www.gbc-ag.de/de/Offenlegung>

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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 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 $\leq - 10\%$.

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:

<http://www.gbc-ag.de/de/Offenlegung>

Section 2 (IV) Information basis

For the creation of the present analysis/analyses publicly available information was used about the issuer(s) (where available, the last three published annual and quarterly reports, ad hoc announcements, press releases, share prospectuses, company presentations, etc.) which GBC believes to be reliable. In addition, discussions were held with the management of the company/companies involved, for the creation of this analysis/these analyses, in order to review in more detail the information relating to business trends.

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(6) b) After receiving valid amendments by the third party or issuer, the draft of this analysis was changed.

(7) The analyst responsible for this report holds shares or other financial instruments of this company at the time of publication.

(8) The analyst responsible for this company is a member of the company's Executive Board or Supervisory Board.

(9) The analyst responsible for this report received or purchased shares in the company analyzed by said analyst, prior to the time of publication.

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GBC AG is currently represented by its board members Manuel Hölzle (Chairman) and Jörg Grunwald.

The analysts responsible for this analysis are:

Julien Desrosiers, Financial Analyst

Felix Haugg, B.A., Financial Analyst

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