Saturn Oil &Gas Inc. (SOIL-V)

The Next Big Mover In The Junior Oil Space

October 20, 2021

Kirk Wilson, CFA

(403) 819-5280

kwilson@beaconsecurities.ca

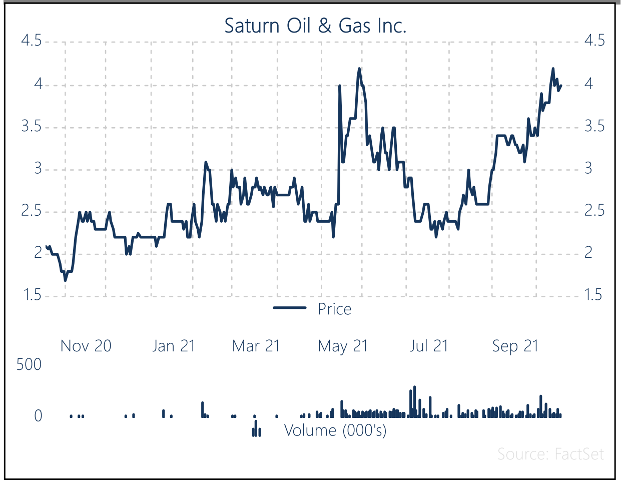
Initiating Coverage				
BUY		**$10.15**		
Recent price				$3.95
12-month Target Price				$10.15
Potential Return				157%
52 Week Price Range				$1.50 - $4.49
FYE				Dec 31
Assumptions	**2020A**	**2021E**	**2022E**	**2023E**
WTI (US$/bbl)	$39.40	$67.48	$72.00	$75.00
AECO (CDN$/mcf)	$2.15	$3.43	$3.20	$3.19
US$/CDN$	$0.75	$0.80	$0.80	$0.80
Production				
Crude oil & Liquids (bbl/d)	439	3,739	7,024	7,425
Natural Gas (mmcf/d)	-	1.1	2.3	2.6
Total Production (boe/d)	439	3,928	7,400	7,850
Financial ($MM, except Per Share item)				
AFF	$1.7	$37.0	$76.6	$106.4
CAPEX	$1.1	$91.2	$32.5	$40.0
YE Net Debt	$34.9	$54.1	$10.0	($99.4)
Net Debt/AFF	20.6x	1.5x	0.1x	-0.9x
AFFPS - Fully Diluted	$0.14	$1.91	$2.37	$2.68
EPS - Fully Diluted	($0.66)	($0.92)	$0.80	$1.36
Valuation				
P/CF		2.1x	1.7x	1.5x
EV/DACF		3.3x	1.3x	0.5x
EV/BOEPD		$39,060	$14,768	$6,740
Stock Data				
Shares Outstanding, Basic (MM)				25.1
Shares Outstanding, Diluted (MM)				44.6
Insider Holdings, FD				9%
Market Capitalization (MM)				$99.3
Enterprise value (MM)				$163.8

About the Company

Saturn Oil + Gas is focused on low cost, low risk, light oil in Saskatchewan that generate sustainable FCF from a deep inventory of economic drilling locations.

All prices in C$ unless otherwise stated

Stock Performance



We are initiating coverage of Saturn Oil & Gas with a BUY recommendation and a 12-month price target of $10.15. We believe SOIL can outperform based on:

A low cost acquisition with impressive upside. Saturn acquired 6,400 boe/d and 24 mmboe of PDP reserves in SE Saskatchewan for $12,000 per boe/d and $3.19/boe, respectively. Production could reach 7,000 boe/d by YE'21 and 8,000 boe/d by YE'22.

High confidence that FCF should repay all debt by Q1/23. Based on our forecast of 7,400 boe/d in 2022 and the ~65% of oil production that is hedged, we model SOIL to generate over $44 million of FCF next year. Add that to the ~$20 million of FCF expected in H2/21 and the company should eliminate all debt by early 2023. Also, our 2022 FCF tracks to a FCF Yield of 44% for SOIL.

Light oil focus should deliver top tier netbacks. With all of Saturn's assets located in (or right next to) Saskatchewan's light oil areas, the company should generate operating netbacks of over $50/boe (pre-hedging) at current commodity prices. This would rank SOIL near the top of its peer group.

Massive valuation discounts should only be temporary. On pretty much all valuation metrics, Saturn is at the low end of the scale. Once investors get comfortable that SOIL can deliver expected growth and that its debt will be significantly reduced in short order, we believe the company's valuation metrics will move closer to average for its peer group. When that happens, SOIL could be trading at 2x or 3x its current share price.

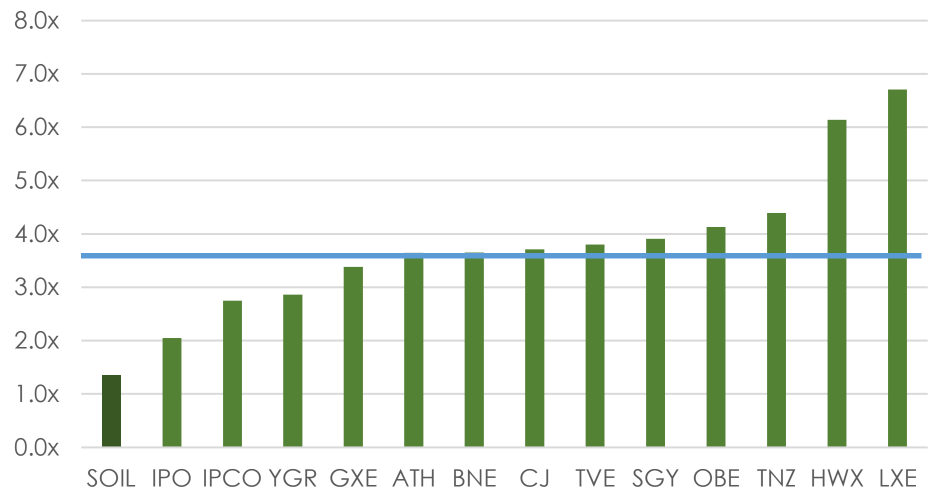
Valuation & Recommendation: Based on an EV/DACF multiple of 2.7x our 2023 forecasts, which is a significant discount to its peer group's 2022 multiple, we generate our target price of $10.15. We rate Saturn Oil & Gas a Buy.

Investment Thesis…Time To Join The Party

Over the course of 2021 the O&G sector has been buoyed by improvement in the market fundamentals as it pertains to the underlying commodity prices. Crude oil prices are up in the order of 70% (depending on the particular benchmark) and natural gas prices have skyrocketed, again the magnitude depends on which pricing point. The strength in those commodities has pushed the junior/intermediate O&G companies upwards nearly 300% on average. Narrowing the list to the companies that had higher financial leverage and the share price returns so far this year have been in the range of 3x-7x.

Looking at a smaller group of oil-weighted peers, Saturn stands out as the only company trading below 2.0x on an EV/DACF basis for 2022 (see Exhibit 1). That may be understandable as Saturn is relatively unknown due to the recent addition to this group as well as the relatively high level of D/CF.

Exhibit 1: Oil-weighted Peer Group 2022 EV/DACF Valuation



Source: Company reports, FactSet, Beacon Securities Limited

However, we believe it is only a matter of time before Saturn is recognized for the potential to deliver production growth while generating massive FCF to reduce debt in the near term. Once that is better understood, SOIL should join the group of share price outperformers.

We are initiating coverage of Saturn Oil & Gas Inc. (Saturn, SOIL or the company) with a BUY rating and a 12-month target price of $10.15 per share.

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

7 Reasons Why We Like Saturn

1. **Valuation points to a multi-bagger**. We see little downside to our forecasts due to the established nature of the assets and the hedge book minimizing the impact of any oil price decline. If SOIL trades up to 2.5x our 2022 forecasts on an EV/DACF basis, the share price could double and if the company's EV/DACF multiple tracks to 3.0x then our target price of $10.15 would be realized.

2. **Massive free cash flow generation to repay credit facilities in 15 months**. Based on our forecasts and ~65% of its oil production hedged next year, SOIL should generate FCF of more than $44 million in 2022. With the $20 million of FCF in H2/21, Saturn should be debt-free in Q1/23. For effect, the company may be able to pay off all debt within 3 years even if oil prices go to zero.

3. **Capital starved assets should make the Oxbow acquisition even more impressive**. The southeast Saskatchewan assets acquired in the Oxbow deal appear to have low-hanging fruit in terms of low cost production additions from both well workovers and new drills as the previous owner effectively cash-swept these assets since early 2018. Saturn estimates production can be increased 10%-20% in the initial few years at a production additions cost in the range of $5,000-$9,000 per boe/d. Target production rates are 7,000 boe/d by the end of 2021 and 8,000 boe/d at the end of 2022.

4. **Light oil focus drives strong operating netbacks**. With nearly all of its assets located in Saskatchewan's light oil regions, Saturn's operating netback is approximately $34/boe at a WTI price of $65. At the current WTI price of over $80, SOIL generates an operating netback of more than $50/boe (pre-hedging).

5. **Impressive well-level economics on new drills:** Saturn's drilling program will target the Mississippian-aged Frobisher and Midale zones in southeast Saskatchewan. For a capital cost of $0.9MM per well, these light oil wells may generate recycle ratios of 6.5x-7.0x with payouts of only a few months at $75 WTI.

6. **Global oil prices forecast to remain strong**. Oil prices have had a very strong year so far with various prices increasing in the range of 60%-70%. Market fundamentals appear to be favorable with some prognosticators calling for oil to hit $100 per barrel later this year. Although we remain cautious about the demand side of the equation due to supply chain issues and lingering effects of the covid pandemic, we expect the WTI price to fluctuate between $70-$85 for the forecast period of this report. As Saturn is weighted

95% to oil production, a strong underlying oil price will be very much in its favor.

7. **An aggressive management and board see plenty of opportunities for M&A deals.** Although the SOIL team does not have the name brand recognition that others do from the last couple of oil cycles, it has identified many opportunities to add cost-effective assets that could result in exponential growth in the next few years.

Oxbow Acquisition

Before we dive into the nuts and bolts of SOIL's assets, we should first look at the transaction that made this possible. On June 7, 2021 Saturn closed the acquisition of light oil assets in southeast Saskatchewan for a net cash price of $77 million. This brought over 6,400 boe/d of production, which accounted for approximately 95% of the company's combined volumes.

Exhibit 2. Oxbow Acquisition Metrics

Purchase Price			$mm
Cash			$76.8
Shares Issued			$0.0
Net Debt Assumption			$0.0
Deal Value			**$76.8**
Assets Acquired			
Reserves (as at April 1, 2021)	**Liquids (mmbbl)**	**Gas (bcf)**	**Total (mmboe)**
PDP	22.9	7.1	24.1
1P	28.9	9.5	30.4
2P	41.0	13.8	43.3
Production	**Liquids (bbl/d)**	**Gas (mmcf/d)**	**Total (boe/d)**
At close of deal	6,055	2.1	6,400
NTM operating income ($mm)			$70.0
Valuation Metrics			
			Deal Value
Production ($ per boe/d)			$12,006
PDP Reserves ($ per boe)			$3.19
1P Reserves ($ per boe)			$2.52
2P Reserves ($ per boe)			$1.77
EV/op income			1.1x

Source; Company Reports, Beacon Securities Limited

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Saturn funded this acquisition through a combination of debt and equity. The company issued $32.2 million of equity in a combination brokered and non-brokered deal. A new $87 million Term debt facility was also put in place with a New York-based family office. It is worth noting that this debt provider is supportive of Saturn being aggressive in its growth profile (read: M&A and drilling).

Overall, the acquisition metrics that Saturn paid for the Oxbow assets were definitely at the low end compared to recent deals of similar size and focus (see Exhibits 2 and 3).

Perhaps the metric that stands out more than any other is that the purchase price of under $77 million is close to what these assets should generate in net operating income in the next 12 months at the current strip price for oil. In other words, a 1-year payout.

Exhibit 3. Recent Industry Transactions

		Gross	Assets			Valuation Metrics		
Acquirer	Seller	Purchase Price ($mm)	Production (boe/d)	2P Reserves (mmboe)	Operating Income ($MM)	Production ($ per boe/d)	2P Reserves ($ per boe)	Operating Income Multiple
Surge Energy	Fire Sky Energy	$58.0	1,500	5.8	$26	$38,667	$10.00	2.2x
InPlay Oil	Prairie Storm	$40.5	1,800	26.8	$20	$22,500	$1.51	2.0x
Spartan Delta	Ferrier assets	$34.9	2,100	19.0	$14	$16,619	$1.84	2.5x
Tamarack Valley Energy	Clearwater assets	$36.0	400	2.5	n/a	$90,000	$14.40	n/a
Surge Energy	Astra Oil	$160.0	4,100	16.6	$58	$39,024	$9.64	2.8x
Cardinal Energy	Venturion Oil	$47.5	2,400	n/a	$23	$19,792	n/a	2.0x
Tamarack Valley Energy	Nipisi/Provost assets	$149.0	2,800	11.0	$35	$53,214	$13.55	4.3x
Spartan Delta	NW Alberta assets	$147.9	9,700	215.4	$45	$15,247	$0.69	3.3x
i3 Energy	Cenovus WC AB assets	$65.0	8,400	79.5	$38	$7,738	$0.82	1.7x
Total or Average		**$738.8**	**33,200**	**376.6**	**$260**	**$33,645**	**$6.55**	**2.6x**

Source; Company Reports, Beacon Securities Limited

We imagine a main reason that Saturn was able to get these assets at such an attractive price is that approximately 58% of the 2,600 wellbores that are included in the deal are non-producing and will need to be dealt with in some manor, typically through abandonment.

However, SOIL expects that approximately 400 of the non-producing wellbores are candidates for workovers that will lead to reclassification as producing wells.

That leaves nearly 1,100 wells that will need to be remediated and Saturn will aggressively tackle its responsibility on that front by remediating between 200-250 wellbores by the end of next year. SOIL is very serious about its ESG commitment and this activity (along with other initiatives) underscores those priorities.

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

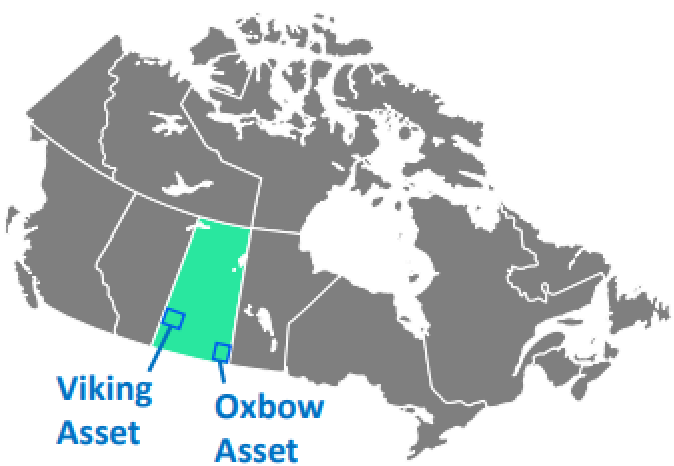
Saturn intends to spend about $1 million per quarter on various workovers that could cost between $20k-$80k per well and add production at a very low cost of $5,000 per boe/d. In total, the company estimates that there is 3,500 bbl/d of production to be added via this program.

As for the abandonment side of the equation, Saturn has a $41 million (PV 15%) Abandonment Retirement Obligation (ARO) associated with the Oxbow assets ($220 million undiscounted). To ensure the company can meet its obligation, it has made a $21 million deposit with the Saskatchewan government specifically for its ARO. In addition, SOIL has secured $10 million from the Accelerated Site Closure Program (ASCP). Thus, Saturn has funded the initial $31million of abandonment spending, which should cover the next seven years.

Light Oil Focus in Saskatchewan

Saturn has long been focused on light oil in Saskatchewan with its assets in the Viking fairway pre-existing the Oxbow acquisition. The company has deep roots in the business community there, including with local service providers that has allowed SOIL to minimize its capital costs on new wells.

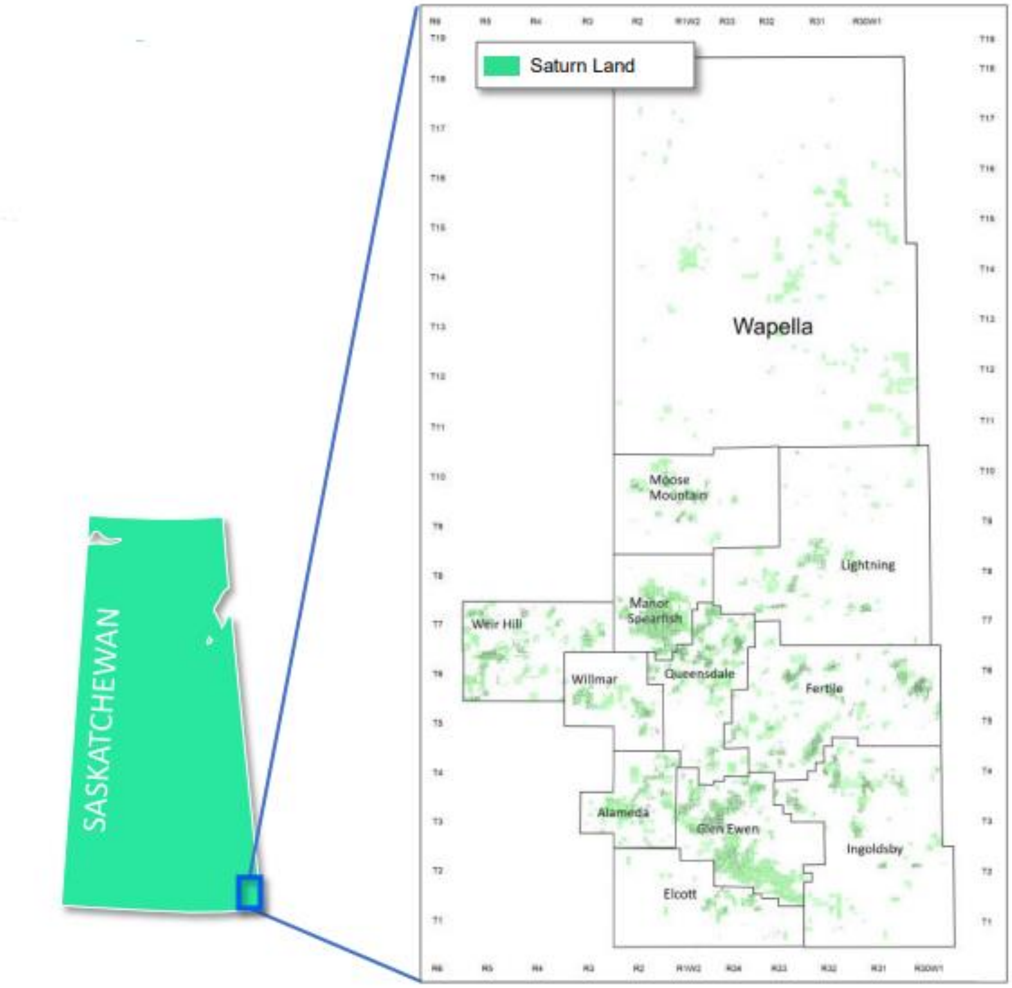
Exhibit 4. Location of Saturn's Assets



Source; Company Reports

Based on the size of the production base in southeast Saskatchewan, the Oxbow area will receive the lion's share of the attention from the company as Saturn will focus its drilling program on the Mississippian-aged formations that generally reside at depths between 950-1,300 meters.

Exhibit 5. Southeast Saskatchewan Landholdings



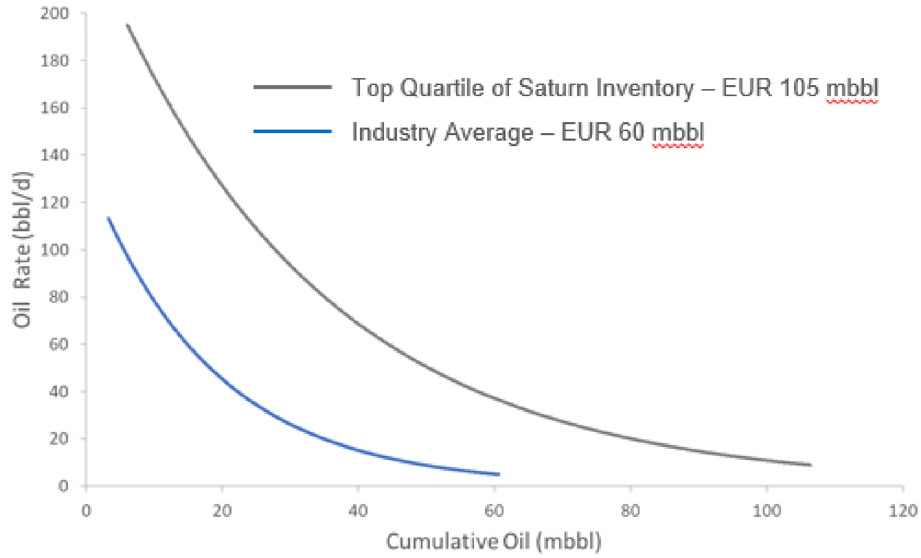
Source; Company Reports

The Oxbow area is comprised of 12 properties (see Exhibit 5) that have been producing for many years from conventional sandstone and carbonate reservoirs. There were several attributes of the area that enticed Saturn to buy these assets:

- There are 242 booked locations associated with the 43 mmboe of 2P reserves.
- Nearly all of these targets (98%) are covered by 2D and 3D seismic, which further de-risks future drilling.

- Extensive infrastructure in the area that should allow new production to be added at a fraction of the Q2/21 operating cost of $24.46/boe
- 12% decline rate on existing production

Exhibit 6: Frobisher Type Curve and Economics



	Units	Frobisher Industry Average	Frobisher Top Quartile Saturn
Drilling Cost	m$	920	920
Initial Production (IP 90)	Bbl/d	94	173
Capital Efficiency	$/bbl/d	$9,787	$5,318
EUR	mbbl	60	105
Reserve Capital Cost (RCC)	$/bbl	$15.33	$8.75
Incremental Netback (NB)	$/bbl	$61.00	$61.00
Recycle Ratio	NB/RRC	4.0x	7.0x
Payout	Months	6	4

Source: Company presentation (based on a $75 WTI oil price)

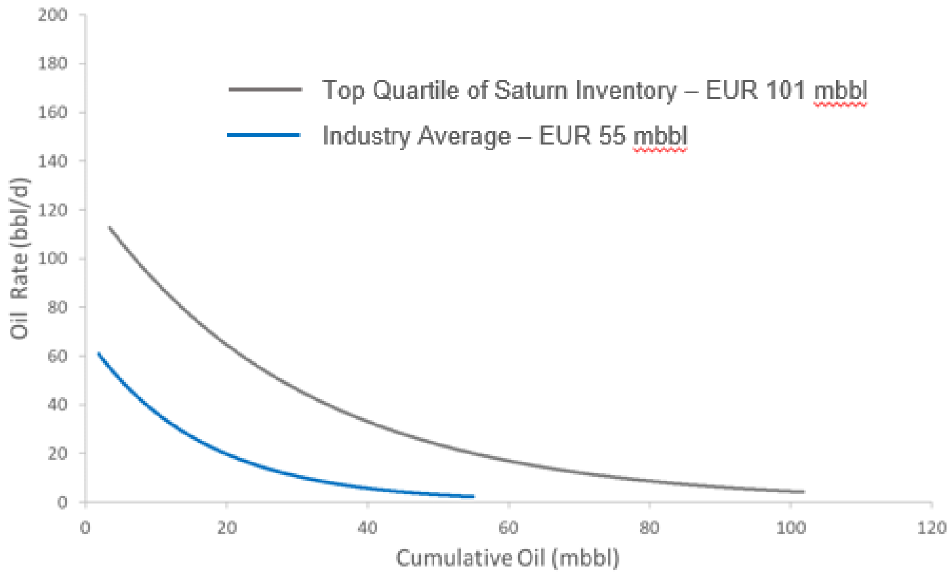
Initial drilling is likely to target the Frobisher zone in the southern part of the Oxbow area. Historically, the horizontal wells had ½-mile laterals due to water contacts. However, some of SOIL's peers in the area have had impressive success with horizontal wells approaching 1-mile and Saturn intends to drill some of these longer horizontal laterals.

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

As shown in Exhibit 6, Saturn could drill some impressive wells over the next few years as the top quartile of its locations are expected to have much superior economics relative to the average industry well.

And, in fact, the upside may be greater than shown. SOIL could improve those economics as approximately 80% of its locations can be drilled from existing pad sites, which should save ~$50k per well. In addition, other cost-saving initiatives, like reusing pumpjacks, could lower initial capex a further $70k. Thus, SOIL could be drilling its Frobisher wells for closer to $800k, a savings of $120k (or 13%) per well. We expect that would allow these Frobisher wells to generate some of the best economics in western Canada.

Exhibit 7: Midale Type Curve and Economics



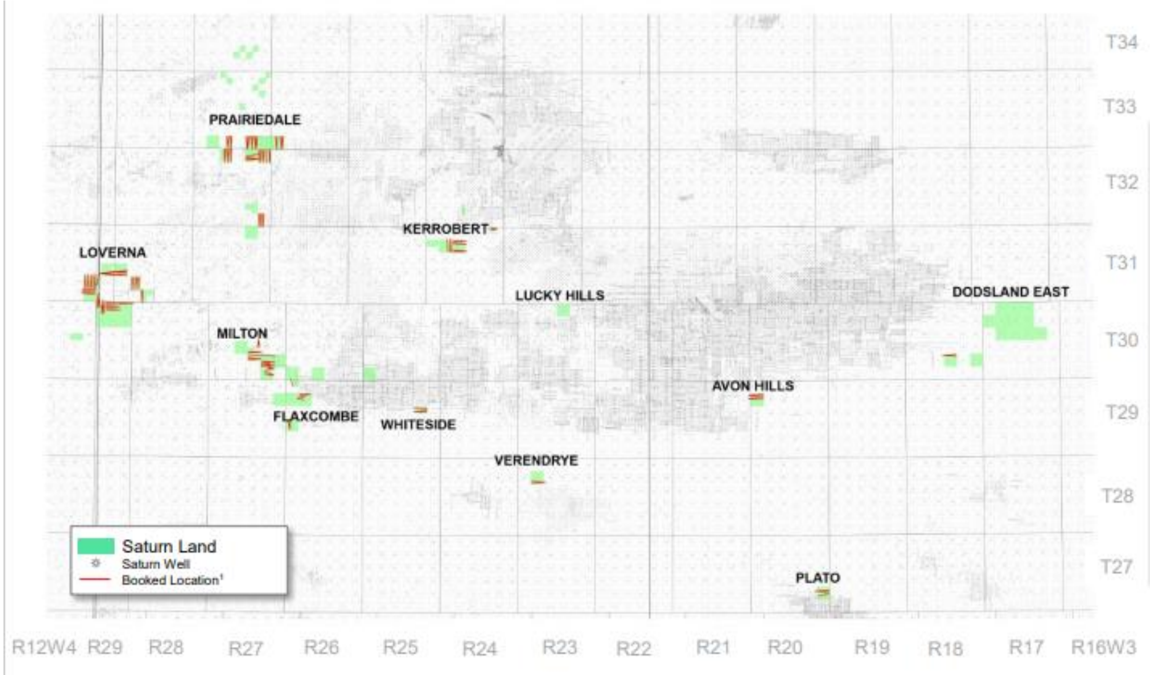
	Units	Midale Industry Average	Midale Top Quartile Saturn
Drilling Cost	m$	920	920
Initial Production (IP 90)	Bbl/d	56	102
Capital Efficiency	$/bbl/d	$16,429	$9,020
EUR	mbbl	55	101
Reserve Capital Cost (RCC)	$/bbl	$16.73	$9.11
Incremental Netback (NB)	$/bbl	$61.00	$61.00
Recycle Ratio	NB/RRC	3.7x	6.7x
Payout	months	13	6

Source: Company presentation (based on a $75 WTI oil price)

 Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

Similar to the Frobisher, the Midale wells have the potential to generate superior economics for the same reasons we outlined above. A key point is that both the Frobisher and Midale top quartile wells should payout in only a few months at the current oil price and especially so if the capital cost savings are realized. With such a high velocity of capital, Saturn will not be on the treadmill that some of its peers face in unconventional drilling in AB & BC.

Exhibit 8. Viking Landholdings



Source: Company presentation

Saturn's pre-acquisition assets were focused in southwest (or west-central) Saskatchewan targeting the Viking formation (see Exhibit 8). This is an area that also has a well-established history due to the hundreds of wells drilled by industry over the years.

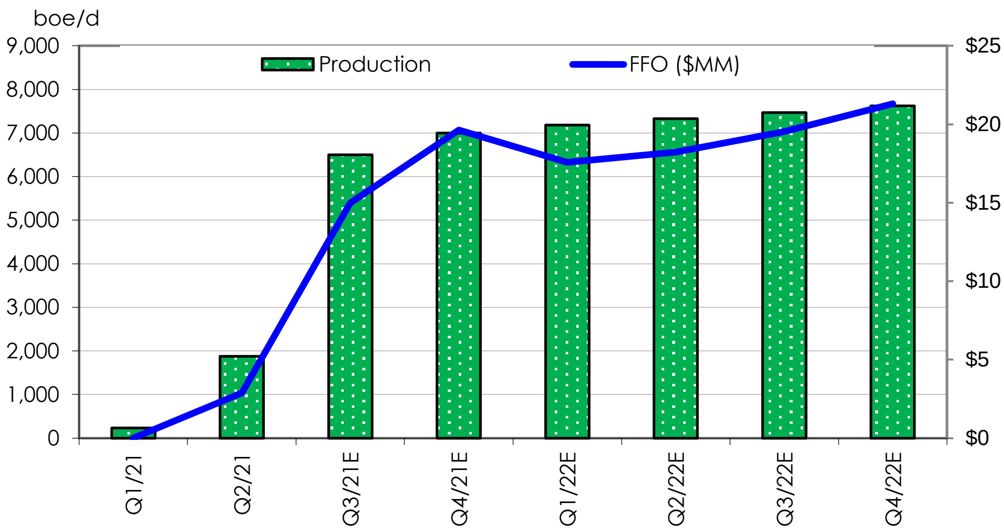
We view the Viking play as one that can be a cash cow when the WTI price is over $60, which we expect it to be for the forecast period of this report. Wells typically have high decline rates (50+% in year 1), which makes production in the first year or two paramount in the overall economics. To date, Saturn's wells have been above the industry average with an IP90 of 83 bbls/d and an EUR of 55 mbbls.

A Leader in FCF Yield

The model that Saturn has built using the expected economics that were outlined in the previous section of this report allows the company to grow its production base by 5%-10% per year by spending between 25%-40% of the funds flow generated, depending on the underlying oil price.

In Exhibit 9, we highlight the gradual, but consistent, increase in production to the end of 2022, based on our forecast of ~4 new wells/qtr and workovers on 30-40 wells/qtr. Our exit rate projection for next year is between 7,600-7,900 boe/d (new well timing dependent). Based on our production forecast as well as our oil price forecast that sees an easing from the current level due to caution over global economic growth before an increase later next year, we model SOIL to generate between $18-$20 million (or $0.70-$0.75 per share) per quarter over the next few quarters.

Exhibit 9: Production and Funds Flow Profile



Source: Company reports, Beacon Securities Limited

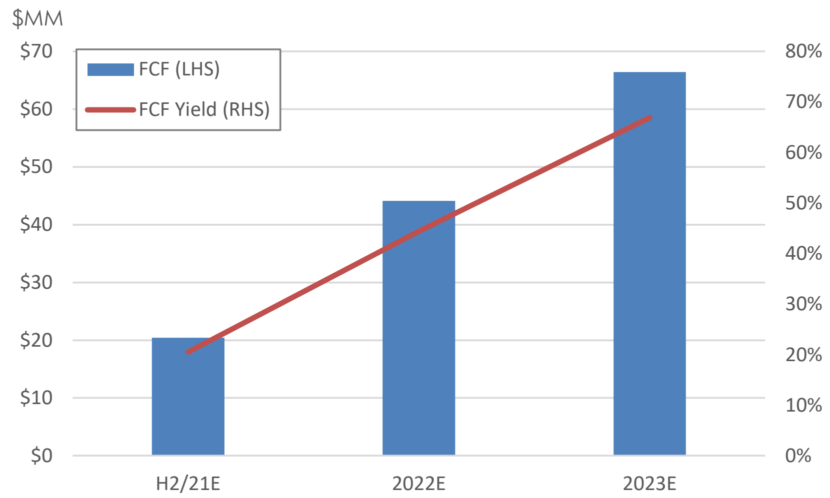
Our forecasts suggest that Saturn should generate massive amounts of free cash flow over the forecast period. The back half of 2021 should deliver $20 million of FCF after the capital program that includes 3 wells in the Viking, 6 new wells and $1 million of workovers in SE Saskatchewan.

For 2022, we expect the company to drill approximately 15 new wells in SE Saskatchewan along with a $1 million/qtr workover program. That level of activity should generate over $43 million of FCF, which gives SOIL a FCF Yield of 42% for 2022.

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

Our 2023 forecasts, which are based on a US$75 WTI oil price, suggests an eye-popping $66 million of FCF and puts the FCF Yield for that year at 65%.

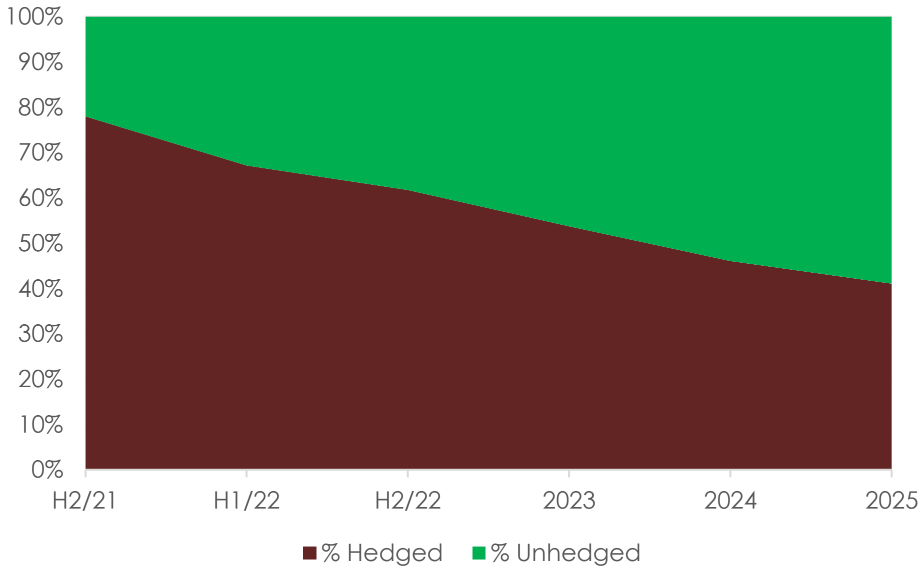
Exhibit 10: Forecast FCF and FCF Yield



Source: Company reports, Beacon Securities Limited

One of the issues that we have heard from some investors is that Saturn does not have the exposure to rising oil prices due to the company's hedge program. This is valid as SOIL has a majority of its H2/21 oil production hedged.

Exhibit 11: Hedging Profile - % of Forecast Production



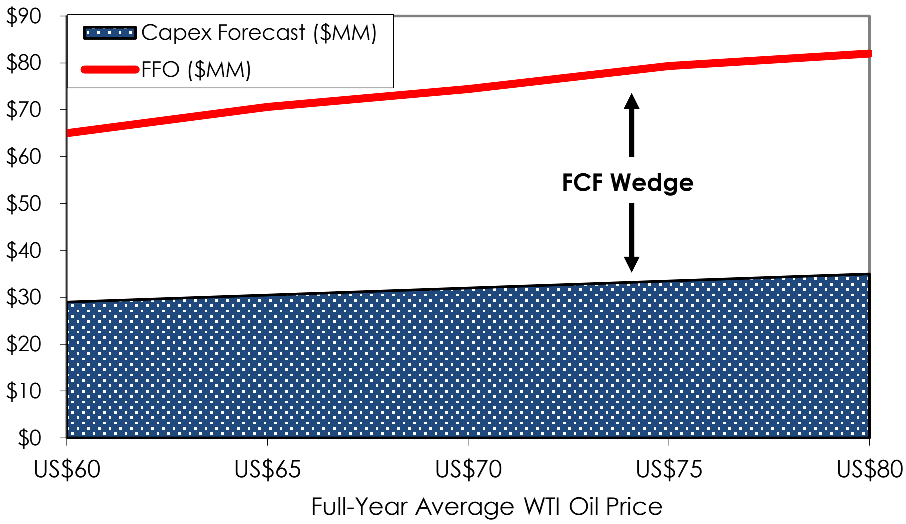
Source: Company reports, Beacon Securities Limited

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

However, as we shown in Exhibit 11, SOIL's percentage exposure to variable (unhedged)oil prices increases significantly over the next few years as it has fewer barrels hedged coupled with a rising production profile.

Another important point is that Saturn has protected its downside in the case of unexpected oil price decrease. In fact, the company is confident that it could still pay off the entirety of its borrowings within three years even if oil prices went to zero.

Exhibit 12: 2022 FCF Sensitivity



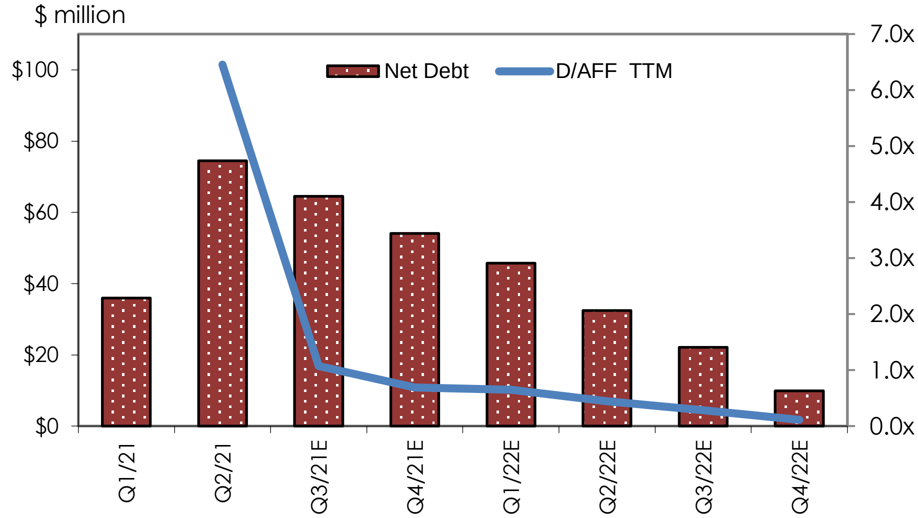
Source: Company reports, Beacon Securities Limited

While we are confident that WTI oil is not headed to zero (again!), we do recognize that in a world where supply management by OPEC+ is juxtaposed to uncertain demand recovery from the pandemic oil prices may continue to be volatile. In Exhibit 12, we present sensitivities for FFO and capex at various WTI oil prices. The main takeaway is that, due to the aforementioned hedge program, Saturn should generate FCF between $65-$85 million next year.

Our confidence in the CFC generation for SOIL carries through to our expectation that the company's net debt should decrease fairly consistently over the next few quarters to a point where we forecast net debt to be fully repaid by early 2023 (see Exhibit 13).

 Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

Exhibit 13. Net Debt vs. Net Debt/AFF



Source; Company reports, Beacon Securities Limited

Capital Structure

- 25.1 million basic shares outstanding
  - The company completed a 20-for-1 share consolidation on October 13, 2021
  - 2.0 million options at an average strike price of $2.50
  - 17.5 million shares may be issued if the 349 million warrants are exercised. 20 warrants are required for a new SOIL common share to be issued.
    - 268.3 million of the warrants are traded on the TSXV under the symbol SOIL.WT with an exercise price of $0.16 per warrant, which equates to $3.20/sh post-consolidation . These warrants expire in June 2023.
    - 43.8 million warrants with an exercise price of $0.16 expire in December 2024 ($3.20 per SOIL share with 20 warrants).
- 44.6 million shares fully diluted
  - On a FD basis, management and directors ownership = 9%

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Exhibit 14. Common Share History

Capital Invested in Saturn Oil & Gas				
		Shares	Equity	
	Date	(mm)	$ per share	$mm
Class A				
Balance at YE'16		7.3	$2.90	$21.1
Private placements	2017	0.8	$1.81	$1.5
Private placement	2018	2.6	$2.63	$6.7
Warrants excersiced	2018	0.4	$3.17	$1.3
Options excersiced	2018	0.0	$5.91	$0.1
Note conversion	2018	0.4	$3.26	$1.1
Warrants excersiced	2019	0.0	$2.96	$0.0
Options excersiced	2019	0.1	$5.08	$0.4
Note conversion	2019	0.3	$3.47	$0.9
Oxbow acquisition	Jun-21	13.4	$2.40	$32.2
Share issue costs & allocation to warrants	Jun-21			-$19.4
Capital Invested		**25.1**		**$45.8**

Source; Company reports, Beacon Securities Limited

Net debt of $74.5 million at the end of Q2/21:

- On June 7, 2021, SOIL entered into a new $87 million senior secured loan with a U.S.-based family office bearing interest at 12.5%/annum. Saturn is required to make monthly principal repayments as follows:
  - 4.17% per month from August 2021 to July 2022
  - 2.50% per month from August 2022 to July 2023
  - 1.67% per month from August 2023 to July 2024
- Saturn has $19.7 million second priority senior secured term notes due December 7, 2024. The notes bear interest at 15% per annum and are payable at a rate of 7.5% in cash and 7.5% in kind accruing monthly and payable upon maturity.
- SOIL has a $1.0 million and a $800k convertible note payable to a shareholder. Each note bears interest at 5% per annum and are due September 2022.
- A $21 million cash deposit with the Saskatchewan Ministry of Energy and Resources for future ARO expenditures.
- $10.7 million of positive working capital.

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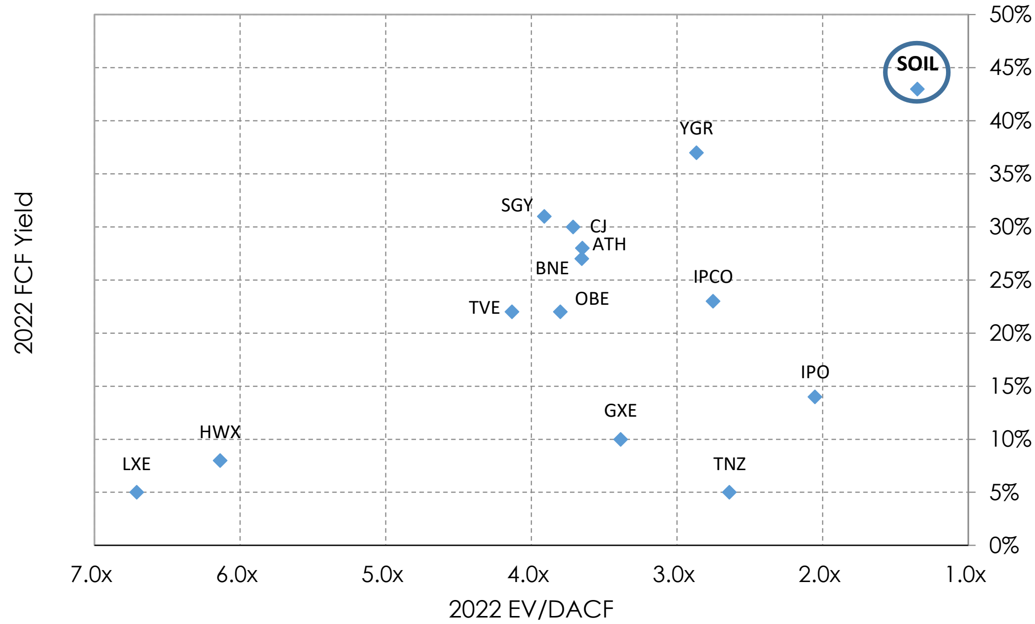
A Standout Compared To Peers

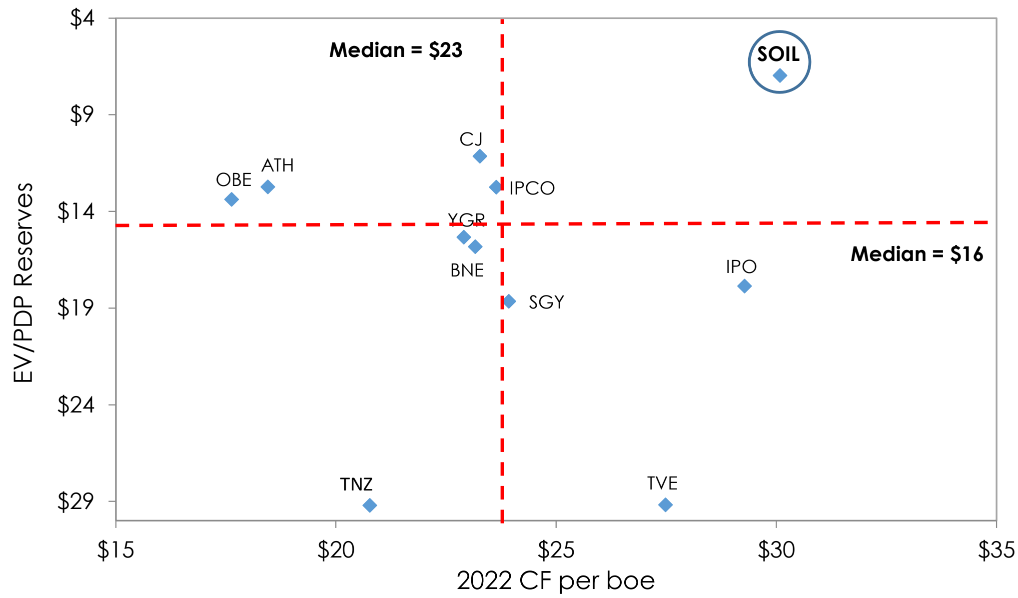
One of the most eye-catching attributes for Saturn is that it appears to fly way under the radar relative to its peer group on almost any comparison. In Exhibits 15-18, we show that SOIL stands out from the pack in terms of valuation.

Exhibit 15: 2022 EV/DACF vs. 2022 FCF Yield



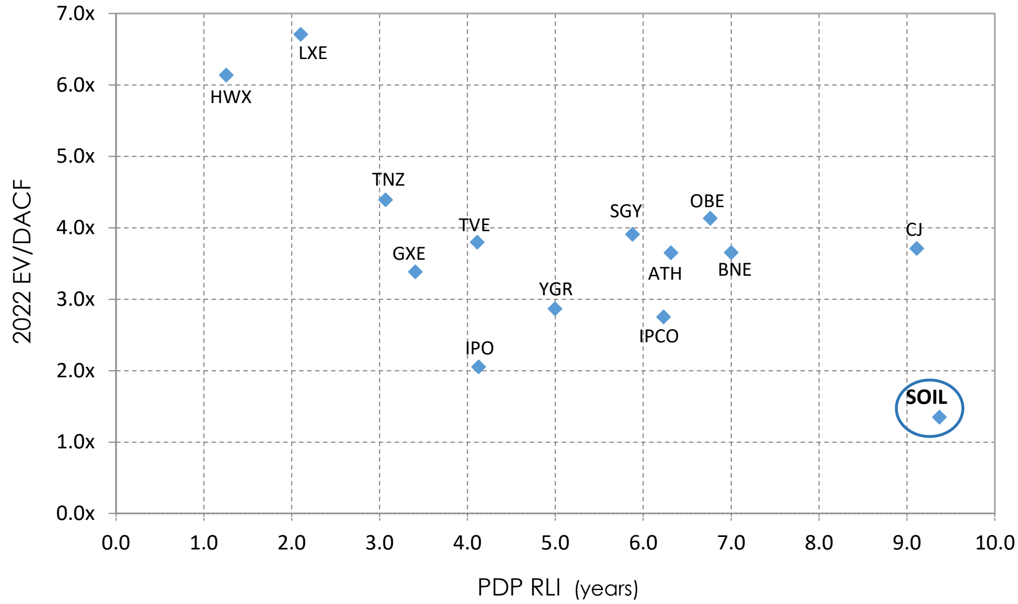
Source: Company reports, FactSet, Beacon Securities Limited

Exhibit 16: EV/PDP vs. 2022 CF Netback



Source: Company reports, FactSet, Beacon Securities Limited

Exhibit 17: 2022 EV/DACF vs. PDP RLI



Source: Company reports, FactSet, Beacon Securities Limited

Exhibit 18: Peer Group Valuation Comparison

		Current	Market Cap		Production		CF Netback		TTM	EV/DACF		EV/boed	
		Price	Current	EV	2021E	2022E	2021E	2022E	D/CF				
	Symbo	($/Share)	($mm)	($mm)	(mboe/d)	(mboe/d)	($/boe)	($/boe)	2021E	2021E	2022E	2021E	2022E
Tenaz Energy Corp	TNZ	$0.37	$40	$44	1.1	1.3	$17.42	$20.76	0.6x	6.3x	4.4x	$41,639	$33,841
Athabasca Oil Corporation	ATH	$1.14	$605	$967	33.1	33.0	$12.70	$18.45	2.4x	5.5x	3.6x	$29,202	$26,305
Bonterra Energy Corp.	BNE	$6.89	$232	$526	12.9	13.9	$19.64	$23.16	3.2x	4.8x	3.7x	$40,827	$34,860
Cardinal Energy Ltd.	CJ	$4.31	$621	$801	19.8	21.6	$17.25	$23.26	1.4x	5.9x	3.7x	$40,412	$32,302
Gear Energy Ltd.	GXE	$0.91	$235	$247	5.5	5.8	$27.06	$30.70	0.2x	4.5x	3.4x	$44,763	$37,133
Headwater Exploration Inc.	HWX	$4.77	$965	$902	7.1	11.0	$35.32	$36.73	n.a.	10.3x	6.1x	$127,313	$78,866
InPlay Oil Corp.	IPO	$1.70	$116	$173	5.7	6.4	$22.06	$29.28	1.2x	3.5x	2.1x	$30,457	$22,455
International Petroleum	IPCO	$7.43	$1,154	$1,340	44.3	46.2	$20.84	$23.64	0.6x	3.8x	2.8x	$30,247	$23,487
Leucrotta Exploration, Inc.	LXE	$0.91	$224	$191	2.5	5.9	$10.97	$15.35	n.a.	19.7x	6.7x	$76,203	$37,226
Surge Energy Inc.	SGY	$5.34	$382	$665	16.3	16.6	$14.52	$23.92	3.3x	6.4x	3.9x	$40,788	$37,552
Tamarack Valley Energy Ltd.	TVE	$3.41	$1,385	$1,786	33.1	40.8	$24.71	$27.48	1.3x	5.5x	3.8x	$53,902	$39,335
Obsidian Energy Ltd	OBE	$4.68	$347	$816	23.2	24.7	$17.95	$17.63	3.1x	4.5x	4.1x	$35,177	$30,715
Yangarra Resources Ltd.	YGR	$1.97	$169	$349	10.2	12.5	$22.79	$22.90	2.1x	3.7x	2.9x	$34,277	$26,109
Peer Group Average							**$20.25**	**$24.10**	**1.8x**	**6.5x**	**3.9x**	**$48,093**	**$35,399**
Saturn Oil + Gas	**SOIL**	**$3.95**	**$99**	**$153**	**3.9**	**7.3**	**$26.52**	**$30.08**	**1.4x**	**3.3x**	**1.3x**	**$39,089**	**$15,079**

Source: Company reports, FactSet, Beacon Securities Limited

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

Valuation & Target Price

We are initiating coverage of Saturn Oil & Gas with a Buy rating. Our 12-month target price of $10.15 per share is generated from a 2.7x EV/DACF multiple applied to our 2023 forecasts.

Saturn stands out from the crowd mainly due to the surprisingly low valuation metrics that the company currently trades at. However, we believe it is only a matter of time and execution from the company (starting with Q3/21 results by mid-November) before the valuations come more into line with its peers. The massive FCF that Saturn should generate over the next 15+ months will provide the company with many options, including debt repayment (initial focus we expect), capital program expansion, additional M&A and possibly installing a dividend in the future.

Appendix I: Operating & Financial Summary

SHARE INFORMATION	
Price	$3.95
Shares O/S – basic (mm)	25.1
Shares O/S – float (mm)	22.9
Shares O/S – f.d. (mm)	44.6
Market cap ($mm)	$99
Enterprise value ($mm)	$164
52-week range	$4.49 - $1.50
Total projected return	**157%**

VALUATION	2021E	2022E	2023E
EV/DACF	3.3x	1.3x	0.5x
P/AFF (diluted)	2.1x	1.7x	1.5x
P/E	neg	5.0x	2.9x
EV/production ($/boe/d)	$39,060	$14,768	$6,740
Price/ PDP NAV	49%		
Price/ 1P NAV	37%		
Price/ 2P NAV	25%		

COMMODITY PRICES	2020A	2021E	2022E	2023E
WTI (US$/bbl)	$39.40	$67.48	$72.00	$75.00
AECO (US$/mcf)	$2.15	$3.43	$3.20	$3.19
Fx (C$/US$)	$0.75	$0.80	$0.80	$0.80

NETBACKS ($/boe)	2020A	2021E	2022E	2023E
Revenue (incl. hedging)	$59.62	$70.53	$70.05	$73.38
Royalties	($2.41)	($9.85)	($10.02)	($10.25)
Operating & Trans	($11.71)	($26.24)	($26.21)	($24.03)
Operating Netback	$45.50	$34.45	$33.81	$39.10
G&A	($8.15)	($2.73)	($1.85)	($1.95)
Interest	($26.58)	($6.67)	($3.59)	$0.00
Other	$0.00	$0.62	$0.00	$0.00
Cash Flow Netback	**$10.77**	**$25.68**	**$28.37**	**$37.15**
DD&A	($28.70)	($14.06)	($15.00)	($15.00)
Stock based compensation	($4.29)	($0.11)	($0.22)	($0.21)
Other non-cash	($27.57)	$8.50	$0.00	$0.00
Deferred tax	$0.00	$2.40	($0.63)	($1.64)
Earnings Netback	**($48.27)**	**($12.39)**	**$9.56**	**$18.90**

PRODUCTION	2020A	2021E	2022E	2023E
Oil & Liquids (bbl/d)	439	3,739	7,024	7,425
Natural Gas (mmcf/d)	0.0	1.1	2.3	2.6
boe/d (6:1)	**439**	**3,928**	**7,400**	**7,850**
% Liquids	100%	95%	95%	95%
Production Growth	-43%	795%	88%	6%
Prod Growth Per Share	-43%	442%	45%	-24%

FINANCIAL ($mm)	2020A	2021E	2022E	2023E
Revenue	9.6	101.1	189.2	210.3
Royalties	(0.4)	(14.1)	(27.1)	(29.4)
Operating & Trans	(1.9)	(37.6)	(70.8)	(68.9)
G&A	(1.3)	(3.9)	(5.0)	(5.6)
EBITDA	**6.0**	**45.5**	**86.3**	**106.4**
Interest	(4.3)	(9.6)	(9.7)	0.0
DD&A	(4.6)	(20.2)	(40.5)	(43.0)
Taxes	0.0	3.4	(1.7)	(4.7)
Other	(5.1)	12.9	(0.6)	(0.6)
Net Income	**($7.8)**	**($17.8)**	**$25.8**	**$54.1**
AFF (mm)	$1.7	$37.0	$76.6	$106.4
AFFPS (basic)	$0.14	$1.91	$3.05	$3.02
AFFPS (diluted)	**$0.14**	**$1.91**	**$2.37**	**$2.68**
EPS Fully Diluted	**($0.66)**	**($0.92)**	**$0.80**	**$1.36**
Net Debt	$34.9	$54.1	$10.0	($99.4)
D/AFF - trailing	20.6x	1.5x	0.1x	NA
D/AFF - forward	0.9x	0.7x	0.1x	
Borrowing capacity (mm)		$115.0	$115.0	$115.0

RESERVES (mmboe)	2018A	2019A	2020A	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
PDP NAV ($/Share)		$2.78	($1.74)	$8.01
1P NAV ($/Share)		$5.73	($0.07)	$10.78
2P NAV ($/Share)		$10.04	$2.64	$15.58

CAPITAL EFFICIENCIES	2018A	2019A	2020A
PDP FD&A ($/boe)	$40.09	$29.38	n.a.
PDP Op. Recycle Ratio	0.8x	1.7x	n.a.
PDP CF Recycle Ratio	0.0x	1.1x	n.a.
2P FD&A ($/boe)	$28.73	$26.21	n.a.
2P Op. Recycle Ratio	1.1x	1.9x	n.a.
2P CF Recycle Ratio	0.0x	1.2x	n.a.

CAPITAL PROGRAM	2020A	2021E	2022E	2023E
Total Capex (mm)	$1	$91	$33	$40
% of cash flow	66%	247%	42%	38%

2021 QRTLY FORECASTS	Q1	Q2	Q3E	Q4E
Liquids (bbl/d)	233	1,807	6,167	6,650
Natural Gas (mmcf/d)	0.0	0.4	2.0	2.1
Total (boe/d)	233	1,875	6,500	7,000
EBITDA ($MM)	$0.4	$4.1	$18.2	$22.7
FD AFF	-$0.05	$0.19	$0.60	$0.78
FD EPS	-$0.10	-$1.90	$0.17	$0.33

Source: Company reports, Beacon Securities Limited

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

Appendix II: Management and Board

Executive Officers		
Name and Residence	**Position**	**Principal Occupation for Past Five Years**
John Jeffrey Calgary, Alberta	President & CEO	Finance professional with 11 years of industry experience. Most recently was a founder and CFO for Axiom Group, a geological and engineering consulting firm that drilled 800+ wells in WCSB.
Scott Sanborn Calgary, Alberta	CFO	Chartered professional accountant with 14 years of financial experience. Previously was Corporate Contoller at Jupiter Resources. Also held various leadership positions with Marquee Energy, Verano Energy and KPMG LLP.
Justin Kaufmann Calgary, Alberta	Senior VP Exploration	Professional geologist with 11 years of industry experience. Most recently was President of Axiom Exploration, a Saskatchewan-based engineering consulting firm. Prior thereto was in management and geology roles for a few private and public companies.
Kevin Smith Calgary, Alberta	VP Corp. Development	20 years of energy and financial industry experience. He was VP business Development with Renaissance Oil and has held senior investment banking roles with Paradigm Capital, Macquaire Capital and HSBC Securities.

Board of Directors		
Name	**Position**	**Principal Occupation**
Calvin Payne Calgary, Alberta	Chairman	Retired businessman. Professional engineer in communications industry.
Ivan Bergerman Saskatoon, Saskatchewan	Director	Partner at Bergerman Smith LLP
Glenn Hamilton Calgary, Alberta	Director	Former CFO of Bonavista Energy
John Jeffrey Calgary, Alberta	Director	CEO of Saturn Oil & Gas
Jim Payne Calgary, Alberta	Director	CEO of dynaCert Inc.
Christopher Ryan Calgary, Alberta	Director	CEO of Broadbill Energy

Source: Company reports, Beacon Securities Limited

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Appendix III: Risks

- **Commodity Price Fluctuations** – The company has direct exposure to crude oil and natural gas prices. Downward movements in either of these commodities can adversely affect the financial performance of the company. To offset this risk, the company may enter into derivative risk management contracts to manage its exposure to commodity price fluctuations.
- **Financing** – Exploring and developing for hydrocarbons may require a combination of debt and equity capital. We do not forecast additional equity other than option/warrant exercise; however, our models incorporate fluctuations in net debt. There is no certainty that the company can raise equity capital or that its bank lines will remain static or increase.
- **Foreign exchange & Interest Rates** – Any movement in either of these rates has the potential to adversely affect the company's financial performance.
- **Cost Overruns** – Unexpected drilling, completion and/or operational cost overruns can mitigate the operational and financial performance of the company.
- **Country risk** – A change in government may lead to policies or laws that are detrimental to the industry or company, which may impact results. As Canada is a democratically-elected government where the rule of law presides, this risk is muted.
- **Weather and Seasonal Factors** – Extreme weather conditions may influence results.
- **Change in Fiscal Regime** – A change in the royalty or tax rates as they relate to oil and gas production may adversely affect cash flows.
- **Well Performance** – Lower production volumes, higher decline rates and/or dry holes can adversely affect the results of the company, particularly from a potential negative reserve revision perspective. Past performance may not be indicative of future execution.

Kirk Wilson | 403.819.5280 | kwilson@beaconsecurities.ca

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As at September 30th, 2021	#Stocks	Distribution
BUY	73	76.0%
Speculative Buy	19	19.8%
Hold	1	1.0%
Sell	0	0.0%
Under Review	2	2.1%
Tender	1	1.0%
Total	96	100%

BUY	Total 12-month return expected to be > 15%
Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return is expected to be between 0% and 15%
Sell	Total 12-month return is expected to be negative
Under Review	
Tender	Clients are advised to tender their shares to a takeover bid or similar offer

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