**SATURN OIL & GAS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(unaudited)

| As at<br>($000s) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** | | |
| Cash | **7,695** | 2,415 |
| Accounts receivable | **31,332** | 20,039 |
| Deposits and prepaid expenses | **19,761** | 6,461 |
| Subscription receipts (note 16) | **74,750** | - |
| Financial derivatives (note 14) | **740** | - |
| Total current assets | **134,278** | 28,915 |
| | | |
| Exploration and evaluation assets | **4,860** | 4,485 |
| Property, plant and equipment (note 4) | **182,407** | 162,909 |
| Right-of-use assets (note 5) | **3,578** | 3,776 |
| Deposit (note 7) | **21,021** | 21,021 |
| Financial derivatives (note 14) | **1,057** | - |
| Total assets | **347,201** | 221,106 |
| | | |
| **LIABILITIES** | | |
| Accounts payable | **44,121** | 28,850 |
| Senior term loan (note 8) | **45,612** | 33,582 |
| Subscription receipts (note 16) | **74,750** | - |
| Lease liabilities (note 6) | **951** | 933 |
| Financial derivatives (note 14) | **75,153** | 31,719 |
| Total current liabilities | **240,587** | 95,084 |
| | | |
| Senior term loan (note 8) | **45,183** | 31,473 |
| Term notes | **-** | 24,104 |
| Promissory note | **811** | 784 |
| Convertible notes | **2,280** | 2,197 |
| Decommissioning obligations (note 7) | **47,953** | 47,296 |
| Lease liabilities (note 6) | **2,510** | 2,814 |
| Warrant liability | **2,442** | 4,856 |
| Financial derivatives (note 14) | **91,313** | 42,804 |
| Total liabilities | **433,079** | 251,412 |
| | | |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 9) | **57,110** | 45,609 |
| Contributed surplus (note 9) | **13,413** | 12,922 |
| Warrants (note 9) | **22,560** | 14,361 |
| Deficit | **(178,961)** | (103,198) |
| Total shareholders' equity (deficit) | **(85,878)** | (30,306) |
| Total liabilities and shareholders' equity | **347,201** | 221,106 |

Commitments (note 15)

Subsequent events (note 16)

*See accompanying notes to the condensed consolidated interim financial statements*

**SATURN OIL & GAS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s, except per share amounts) | **2022** | 2021 | **2022** | 2021 |
| **REVENUE** | | | | |
| Petroleum and natural gas sales (note 10) | **82,230** | 12,589 | **150,671** | 13,911 |
| Processing income (note 10) | **727** | - | **1,400** | - |
| Royalties | **(12,741)** | (1,640) | **(23,938)** | (1,698) |
| | **70,216** | 10,949 | **128,133** | 12,213 |
| Realized loss on derivatives (note 14) | **(30,859)** | (1,402) | **(51,482)** | (1,402) |
| Unrealized gain (loss) on derivatives (note 14) | **13,651** | (45,851) | **(90,145)** | (45,898) |
| Other income (note 7) | **1,912** | - | **4,082** | - |
| | **54,920** | (36,304) | **(9,412)** | (35,087) |
| **EXPENSES** | | | | |
| Operating | **18,772** | 4,173 | **37,896** | 4,570 |
| Transportation | **646** | 327 | **1,013** | 327 |
| General and administrative | **1,485** | 926 | **2,980** | 1,359 |
| Depletion depreciation and amortization (notes 4,5) | **6,007** | 2,185 | **13,184** | 2,764 |
| Exploration and evaluation expiries | **-** | - | **698** | - |
| Share based payments (recovery) (note 9) | **170** | 62 | **357** | (40) |
| Financing (note 11) | **6,481** | 2,667 | **12,762** | 3,784 |
| Foreign exchange (gain) loss | **539** | (915) | **623** | (900) |
| Debt extinguishment (gain) loss (note 8) | **-** | (1,667) | **6,883** | (1,667) |
| Unrealized (gain) loss on warrant liability | **(942)** | (738) | **(2,414)** | (429) |
| Transaction costs | **-** | 2,137 | **-** | 2,137 |
| Gain on acquisition (note 3) | **(70)** | (11,898) | **(5,723)** | (11,898) |
| | **33,088** | (2,741) | **68,259** | 7 |
| Income (loss) before income taxes | **21,832** | (33,563) | **(77,671)** | (35,094) |
| Deferred income tax recovery | **(23)** | (3,966) | **(1,908)** | (3,966) |
| Net income (loss) and comprehensive income (loss) | **21,855** | (29,597) | **(75,763)** | (31,128) |
| Net income (loss) per share (note 9) | | | | |
| Basic | **0.68** | (1.94) | **(2.56)** | (2.25) |
| Diluted | **0.66** | (1.94) | **(2.56)** | (2.25) |

*See accompanying notes to the condensed consolidated interim financial statements*

**SATURN OIL & GAS INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

| ($000s) | Number of Shares | Share Capital | Contributed Surplus | Warrants | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2020 | 11,728 | 33,027 | 8,716 | - | (38,137) | 3,606 |
| Private placement | 13,417 | 32,200 | - | - | - | 32,200 |
| Allocation to warrants (note 9) | - | (14,361) | - | 14,361 | - | - |
| Cash share issue costs (note 9) | - | (2,040) | - | - | - | (2,040) |
| Non-cash share issue costs (note 9) | - | (3,022) | 3,633 | - | - | 611 |
| Share based payments (recovery) | - | - | (40) | - | - | (40) |
| Net loss for the period | - | - | - | - | (31,128) | (31,128) |
| Balance, June 30, 2021 | **25,145** | **45,804** | **12,309** | 14,361 | **(69,265)** | 3,209 |
| | | | | | | |
| Balance, December 31, 2021 | 25,165 | 45,609 | 12,922 | 14,361 | (103,198) | (30,306) |
| Equity financings (note 9) | 6,871 | 20,613 | - | - | - | 20,613 |
| Allocation to warrants (note 9) | - | (7,200) | - | 7,200 | - | - |
| Cash share issue costs (note 9) | - | (1,668) | - | - | - | (1,668) |
| Non-cash share issue costs (note 9) | - | (1,352) | 1,352 | - | - | - |
| Share based payments | - | - | 464 | - | - | 464 |
| Broker option exercise | 325 | 1,108 | (1,325) | 999 | - | 782 |
| Net loss for the period | - | - | - | - | (75,763) | (75,763) |
| Balance, June 30, 2022 | **32,361** | **57,110** | **13,413** | **22,560** | **(178,961)** | **(85,878)** |

*See accompanying notes to the condensed consolidated interim financial statements*

**SATURN OIL & GAS INC.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASHFLOWS
(unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| **OPERATING ACTIVITIES** | | | | |
| Net income (loss) for the period | **21,855** | (29,597) | **(75,763)** | (31,128) |
| Items not affecting cash: | | | | |
| Depletion, depreciation and amortization (notes 4,5) | **6,007** | 2,205 | **13,184** | 2,764 |
| Exploration and evaluation expiries | **-** | - | **698** | - |
| Share based payments (recoveries) (note 9) | **170** | 62 | **357** | (40) |
| Deferred income tax recovery | **(23)** | (3,966) | **(1,908)** | (3,966) |
| Unrealized (gain) loss on financial derivatives (note 14) | **(13,651)** | 45,851 | **90,145** | 45,898 |
| Unrealized (gain) loss on warrant liability | **(942)** | (738) | **(2,414)** | (429) |
| Unrealized foreign exchange (gain) loss | **1** | (618) | **43** | (602) |
| Gain on acquisition (note 3) | **(70)** | (11,898) | **(5,723)** | (11,898) |
| (Gain) loss on debt extinguishment (note 8) | **-** | (1,667) | **6,883** | (1,667) |
| Non-cash financing expenses (note 11) | **2,994** | 3,457 | **6,467** | 3,617 |
| Non-cash transaction costs | **-** | 611 | **-** | 611 |
| Other income (note 7) | **(1,878)** | - | **(4,035)** | - |
| Decommissioning expenditures (note 7) | **(44)** | - | **(429)** | - |
| Change in non-cash working capital (note 12) | **5,980** | (33,967) | **3,236** | (33,638) |
| Cash flow from (used in) operating activities | **20,399** | (30,265) | **30,741** | (30,478) |
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from senior term loan, net of discount (note 8) | **-** | 84,065 | **36,718** | 84,017 |
| Debt issue costs (note 8) | **-** | (4,082) | **(286)** | (4,082) |
| Repayment of senior term loan (note 8) | **(8,610)** | - | **(12,237)** | - |
| Proceeds from share issuance (note 9) | **-** | 32,200 | **20,613** | 32,200 |
| Share issue costs (note 9) | **-** | (2,041) | **(1,668)** | (2,041) |
| Repayment of promissory notes | **-** | - | **(32,081)** | - |
| Proceeds from broker option exercise (note 9) | **-** | - | **781** | - |
| Lease payments (note 6) | **(406)** | (105) | **(812)** | (149) |
| Change in non-cash working capital (note 12) | **35** | - | **-** | - |
| Cash flows from (used in) financing activities | **(8,981)** | 110,037 | **11,028** | 109,945 |
| **INVESTING ACTIVITIES** | | | | |
| Property acquisition (note 3) | **90** | (76,820) | **(7,493)** | (76,820) |
| Property, plant and equipment (note 4) | **(5,544)** | (201) | **(15,364)** | (201) |
| Exploration and evaluation | **(426)** | - | **(1,073)** | - |
| Change in non-cash working capital (note 12) | **(16,077)** | 2,344 | **(12,559)** | 2,344 |
| Cash flows used in investing activities | **(21,957)** | (74,677) | **(36,489)** | (74,677) |
| Change in cash, during the period | **(10,539)** | 5,095 | **5,280** | 4,790 |
| Cash, beginning of period | **18,234** | 264 | **2,415** | 569 |
| Cash, end of period | **7,695** | 5,359 | **7,695** | 5,359 |

*See accompanying notes to the condensed consolidated interim financial statements*

## 1. NATURE OF OPERATIONS

Saturn Oil & Gas Inc. (“Saturn” or the “Company”) is a Canadian resource company engaged in the business of acquiring, exploration and development of petroleum and natural gas resource deposits in Canada. The Company’s current focus is to advance the exploration of its oil and gas properties in Southeast and West Central Saskatchewan. The common shares and certain warrants of the Company are listed on the TSX Venture Exchange (“TSXV”) and trade under the symbols “SOIL”, “SOIL.WT”, “SOIL.WT.A” and “SOIL.WT.B”.

The Company’s corporate headquarters are at 1000 – 207 9 Ave SW, Calgary, Alberta, T2P 1K3, and its registered office is located at 230 – 22 Street East Suite 800, Saskatoon, SK S7K 0E9.

## 2. BASIS OF PREPARATION

**Statement of compliance**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and in accordance with IAS 34 – Interim Financial Reporting. The unaudited condensed consolidated interim financial statements do not include all information required for annual consolidated financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2021. These unaudited condensed consolidated interim financial statements have been prepared following the same accounting policies as the Company’s audited consolidated financial statements for the year ended December 31, 2021.

These unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Company’s Board of Directors on August 17, 2022.

**Operating environment**

The marketability and price of oil and natural gas that may be acquired or discovered by Saturn is and will continue to be affected by global events that may cause disruptions in the supply of oil and natural gas. Conflicts, or conversely peaceful developments, arising in Canada and abroad, including pandemics, shifts in social opinion, changes in political regimes or parties in power, may have a significant impact on the price of crude oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Saturn's net production revenue.

The level of public health, social, and geo-political risk escalates at certain points in time. While the specific impact on the global economy would depend on the nature of the event, in general, any major event could result in instability and volatility. Current areas of attention include: global uncertainty and market repercussions due to the spread of COVID-19; Russia's military invasion of Ukraine; and rising civil unrest and activism globally.

**Basis of measurement, functional and presentation currency**

The unaudited condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value through profit or loss.

The unaudited condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company’s functional currency.

**Significant judgments, estimates, fair values and accounting policies**

The preparation of the unaudited condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies impacting fair value and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Significant judgments, estimates and assumptions made by management in these unaudited condensed consolidated interim financial statements are outlined in note 2 of the Company's December 31, 2021 annual consolidated financial statements. There have been no changes in the Company's judgments, estimates, accounting policies or determination of fair values applied during the interim period ended June 30, 2022, relative to those described in the most recent annual consolidated financial statements as at and for the year ended December 31, 2021.

## 3. ACQUISITION

On February 28, 2022, the Company completed an acquisition (the "Plato Acquisition") of certain oil and gas properties located in the Plato area of West Central Saskatchewan. The Acquisition was completed for total cash consideration of $7.5 million, after final adjustments. The Acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and liabilities assumed are recorded at the estimated fair value on the acquisition date.

The determination of the purchase price, based on management's estimate of fair values, is as follows:

| ($000s) | **February 28, 2022** |
|---|---:|
| Property, plant and equipment | 15,708 |
| Decommissioning obligations | (588) |
| Deferred income tax liability | (1,908) |
| **Net assets acquired** | **13,212** |
| Cash consideration | 7,489 |
| **Gain on acquisition** | **(5,723)** |

The fair value of property, plant and equipment has been derived with reference to an independent third-party prepared reserves evaluation for the acquired properties. The estimated proved and probable oil and natural gas reserve and related cash flows were discounted at a rate based on what a market participant would have paid as well as market metrics in the prevailing areas at the time. The fair value of decommissioning obligations was estimated using a credit adjusted risk free rate of 14.5%.

Petroleum and natural gas sales of $3.4 million and a net income of $2.4 million are included in the statement of income (loss) and comprehensive income (loss) for the acquired assets since the closing date of February 28, 2022.

If the Plato Acquisition had occurred on January 1, 2022, the incremental audited petroleum and natural gas sales and net income recognized for the period ended June 30, 2022, and the pro forma results would have been as follows:

| ($000s) | **As stated** | **Acquisition prior to close date** | *(Unaudited)* **Pro Forma** |
|---|---:|---:|---:|
| Oil and natural gas sales | 150,671 | 1,372 | 152,043 |
| Net income (loss) | (75,763) | 819 | (74,944) |

## 4. PROPERTY, PLANT AND EQUIPMENT

| **Cost** ($000s) | **Oil and gas properties** | **Other assets** | **Total** |
|---|---|---|---|
| As at December 31, 2020 | 46,560 | 307 | 46,867 |
| Additions | 8,592 | 35 | 8,627 |
| Acquisition | 132,897 | - | 132,897 |
| Change in decommissioning obligations | 3,398 | - | 3,398 |
| As at December 31, 2021 | 191,447 | 342 | 191,789 |
| Additions | **14,967** | **508** | **15,475** |
| Acquisition (note 3) | **15,711** | **-** | **15,711** |
| Change in decommissioning obligations | **1,052** | **-** | **1,052** |
| As at June 30, 2022 | **223,177** | **850** | **224,027** |
| | | | |
| **Accumulated depletion, depreciation and amortization** | | | |
| As at December 31, 2020 | 13,236 | 206 | 13,442 |
| Depletion, depreciation and amortization | 15,522 | 147 | 15,669 |
| Disposals | (43) | (188) | (231) |
| As at December 31, 2021 | 28,715 | 165 | 28,880 |
| Depletion, depreciation and amortization | **12,594** | **146** | **12,740** |
| As at June 30, 2022 | **41,309** | **311** | **41,620** |
| | | | |
| **Net book value** | | | |
| As at December 31, 2021 | 162,732 | 177 | 162,909 |
| As at June 30, 2022 | **181,868** | **539** | **182,407** |

As at June 30, 2022, the calculation of depletion includes estimated future development costs relating to the development of proved plus probable reserves of $295.0 million (December 31, 2021 - $303.4 million). The Company capitalized $0.8 million of general and administrative costs for the period ended June 30, 2022 (year ended December 31, 2021 – $0.6 million) and capitalized $0.1 million of share-based compensation expense for the period ended June 30, 2022 (year ended December 31, 2021 – $0.2 million).

At June 30, 2022, there were no indicators of impairment identified. Accordingly, an impairment test was not performed.

## 5. RIGHT-OF-USE ASSETS

The Company recognizes right-of-use assets and corresponding lease liabilities related to certain office facilities and vehicles. See note 6 for additional information regarding the Company's leases.

| **Cost** ($000s) | **Offices** | **Vehicles** | **Total** |
|---|---|---|---|
| As at December 31, 2020 | 935 | - | 935 |
| Additions | 2,419 | 1,349 | 3,768 |
| As at December 31, 2021 | 3,354 | 1,349 | 4,703 |
| Additions | **-** | **246** | **246** |
| As at June 30, 2022 | **3,354** | **1,595** | **4,949** |
| | | | |
| **Accumulated depletion, depreciation and amortization** | | | |
| As at December 31, 2020 | 370 | - | 370 |
| Depletion, depreciation and amortization | 321 | 236 | 557 |
| As at December 31, 2021 | 691 | 236 | 927 |
| Depletion, depreciation and amortization | **275** | **169** | **444** |
| As at June 30, 2022 | **966** | **405** | **1,371** |
| | | | |
| **Net book value** | | | |
| As at December 31, 2021 | 2,663 | 1,113 | 3,776 |
| As at June 30, 2022 | **2,388** | **1,190** | **3,578** |

## 6. LEASES

The following table reconciles the changes in the lease liability for the periods:

| ($000s) | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **3,747** | 610 |
| Lease remeasurement | **-** | 581 |
| Additions | **246** | 3,188 |
| Lease payment | **(812)** | (964) |
| Interest expense | **280** | 332 |
| Carrying value, end of period | **3,461** | 3,747 |
| Current | **951** | 933 |
| Long-term | **2,510** | 2,814 |

As at June 30, 2022, the estimated undiscounted cash flows required to settle the Company's lease liability was $5.0 million (December 31, 2021 - $5.5 million).

## 7. DECOMMISSIONING OBLIGATIONS

The decommissioning obligation represents costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Management of the Company has estimated that the total undiscounted cash flows required to settle the obligations will be $197.8 million (December 31, 2021 - $196.2 million) which has been inflated at 2.0% (December 31, 2021 – 2.0%) and discounted below using the credit adjusted risk-free rate of 14.5% (December 31, 2021 – 14.5%) with an estimated timeline to abandoned between 10 and 60 years.

| ($000s) | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **47,296** | 415 |
| Acquired (note 3) | **588** | 40,213 |
| Obligations incurred (note 4) | **156** | 8 |
| Change in estimates (note 4) | **896** | 3,390 |
| ASCP settlements | **(4,035)** | (256) |
| Cash settlements | **(429)** | (53) |
| Accretion | **3,481** | 3,579 |
| Balance, end of period | **47,953** | 47,296 |

During the six months ended June 30, 2022, approximately $4.0 million was granted to Saturn from the Government of Saskatchewan through the Accelerated Site Closure Program ("ASCP").

In connection with the acquisition of the Company's assets in the Oxbow area of Southeast Saskatchewan, the Company placed a $21.0 million deposit with the Saskatchewan Ministry of Energy and Resources ("SMER") on June 7, 2021.

## 8. SENIOR TERM LOAN

On February 28, 2022, the Company entered into an Amended and Restated Senior Term Loan Agreement with its senior secured lender and expanded the Senior Term Loan by $38.0 million to an aggregate principal amount of $103.2 million at an original issue discount of 3.375%. The Company is required to make monthly principal repayments as follows: February 28, 2022 to April 30, 2022 of $nil, May 31, 2022 to April 30, 2023 of $4.3 million per month; May 31, 2023 to April 30, 2024 of $2.6 million per month; and May 31, 2024 to June 7, 2024 of $1.7 million per month. All principal repayments are subject to an exit fee of 2.5% on the aggregate principal amount of any such payment. The Senior Term Loan bears interest at 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rates at a minimum rate of 1%. The Senior Term Loan has a stated maturity date of June 7, 2024.

Subsequent to quarter end, the Company expanded its Senior Term Loan by $200.0 million and amended the repayment timeline and amounts (note 16).

| **Principal** ($000s) | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **68,860** | - |
| Additions | **38,000** | 87,000 |
| Repayments | **(12,237)** | (18,140) |
| Balance, end of period | **94,623** | 68,860 |
| | | |
| **Debt issue costs and discount** | | |
| Balance, beginning of period | **(3,805)** | - |
| Additions | **(1,861)** | (6,470) |
| Amortization | **1,838** | 2,665 |
| Balance, end of period | **(3,828)** | (3,805) |
| | | |
| **Carrying value** | **90,795** | 65,055 |
| Current | **45,612** | 33,582 |
| Long-term | **45,183** | 31,473 |

**Covenants**

The Senior Term Loan is subject to various covenants on the part of the Company including limitations on certain types of activities, restrictions or requirements with respect to additional debt, liquidity, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. As at June 30, 2022, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The following table summarizes the current key financial covenants as set forth in the credit agreement:

| **Covenant description** | **Covenant Ratio** | **June 30, 2022** |
|---|---|---|
| PDP Asset Coverage Ratio Minimum (1) | 1.75 | 3.21 |
| Current Ratio Minimum (2) | 1.00 | 1.33 |
| First Lien Net Leverage Ratio Maximum (3) | 1.75 | 1.28 |

(1) The ratio of (a) the PV10 of Saturn's proved developed producing ("PDP") reserves and the SMER deposit net of financial derivatives, to (b) the carrying value of the Senior Term Loan net of cash.

(2) The ratio of (a) current assets; excluding subscription receipts and financial derivatives, to (b) current liabilities; excluding the current portion of the Senior Term Loan, subscription receipts, financial derivatives and lease liabilities.

(3) The ratio of (a) the Senior Term Loan net of cash, to (b) annualized adjusted EBITDA (note 13).

**Loss on debt extinguishment**

On February 28, 2022, the Company completed a debt consolidation whereby it early retired it's second-lien Term Notes for $32.1 million (US$25.3 million) with a principal amount outstanding of $29.5 million (US$23.2 million) resulting in an early retirement make-whole payment of $2.6 million (US$2.3 million) paid to the lender. In connection with the debt extinguishment, $4.6 million of non-cash unamortized debt issue costs were accelerated and expensed in profit or loss.

Concurrently, the Company expanded its Senior Term Loan by $38.0 million. The net present value of the expanded cash flows related to the Senior Term Loan, discounted at the original effective interest rate, was compared against the original carrying net book value, resulting in a gain on debt modification of $0.3 million.

The following tables reconciles the total loss on debt extinguishment:

| ($000s) | **Amount** |
|---|---|
| Term Notes principal outstanding | 29,495 |
| Term Notes unamortized debt issue costs | (4,565) |
| Term Notes carrying value | 24,930 |
| Term Notes retirement payment | (32,107) |
| Senior Term Loan gain on debt modification | 294 |
| | (6,883) |
| Comprised of: | |
| Term Notes make whole payment | (2,611) |
| Term Notes accelerated debt issue costs, non-cash | (4,566) |
| Senior Term Loan gain on debt modification, non-cash | 294 |
| Loss on debt extinguishment | (6,883) |

## 9. SHARE CAPITAL

### Authorized

The Company is authorized to issue an unlimited number of common shares with no par value.

### Issued and outstanding

| | | **June 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| (000s) | **Shares** | **Amount** | Shares | Amount |
| Balance, beginning of period | **25,165** | **45,609** | 11,728 | 33,027 |
| Common shares issued for cash proceeds | **6,871** | **20,613** | 13,417 | 32,200 |
| Allocation to warrants | **-** | **(7,200)** | - | (14,361) |
| Cash share issue costs | **-** | **(1,668)** | - | (2,325) |
| Non-cash share issue costs | **-** | **(1,352)** | - | (3,022) |
| Broker option exercise | **325** | **1,108** | - | - |
| Stock option exercise | **-** | **-** | 20 | 90 |
| Balance, end of period | **32,361** | **57,110** | 25,165 | 45,609 |

On March 10, 2022, Saturn completed a bought-deal equity financing (the "Bought-Deal Financing") of 6,141,000 Units at a price of $3.00 per Unit for aggregate gross proceeds of $18.4 million; and a non-brokered private placement (the "Non-Brokered Financing") of 730,000 Units at a price of $3.00 per Unit, together the (“Equity Financings”) for aggregate gross proceeds of $2.2 million. Each Unit consisted of one Common Share and one common share purchase warrant entitling the holder to acquire one Common Share at a price of $4.00 for a period of 36 months.

In connection with the Equity Financings, the Company recorded $3.0 million in share issue costs comprised of $1.7 million in commission and fees and the calculated fair value of $1.3 million associated with 399,165 Broker Options issued to underwriters and advisors.

### Warrants

| | | **June 30, 2022** | | December 31, 2021 |
|---|---|---|---|---|
| (000s, except per warrant price) | **Warrants** | **Weighted average exercise price** | Warrants | Weighted average exercise price |
| Balance, beginning of period | **15,607** | **3.20** | 1,525 | 4.70 |
| Issued | **7,196** | **3.96** | 15,607 | 3.20 |
| Cancelled | **-** | **-** | (1,525) | 4.70 |
| Balance, end of period | **22,803** | **3.44** | 15,607 | 3.20 |

The Company issued 6,871,000 warrants in connection to the Equity Financings which were allocated a fair value of $7.2 million, and 325,312 warrants upon the exercise of Broker Options. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions: expected life of 36 months; volatility of 99%; risk-free interest rate of 1.6%; and a dividend yield of 0%.

The Company has both non-listed restricted warrants and listed unrestricted warrants that trade on the TSXV. As at June 30, 2022, the following share purchase warrants are outstanding and exercisable.

| (000s, except per warrant price) Expiry date | Type | Exercise price | Warrants outstanding and exercisable | Exercise ratio | Shares issuable upon exercise |
|---|---|---|---|---|---|
| June 4, 2023 (1) | SOIL.WT | 0.16 | 268,333 | 20:1 | 13,417 |
| June 4, 2023 (2) | Restricted | 0.16 | 6,506 | 20:1 | 325 |
| March 1, 2023 | Restricted | 3.20 | 2,190 | 1:1 | 2,190 |
| March 10, 2025 | SOIL.WT.A | 4.00 | 6,871 | 1:1 | 6,871 |
| | | | | | 22,803 |

(1) 268,333,333 non-consolidated warrants outstanding, exercisable on a twenty warrant per exercise basis at $0.16 per warrant.

(2) 6,506,240 non-consolidated warrants outstanding, exercisable on a twenty warrant per exercise basis at $0.16 per warrant.

**Broker options**

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (000s, except per broker option price) | **Broker options** | **Weighted average exercise price** | Broker options | Weighted average exercise price |
| Balance, beginning of period | **891** | **2.40** | - | - |
| Issued | **399** | **3.00** | 891 | 2.40 |
| Exercised | **(325)** | **2.40** | - | - |
| Balance, end of period | **965** | **2.65** | 891 | 2.40 |

In partial consideration for services rendered in relation to the Equity Financings, the Company issued 399,165 Broker Options to the underwriters. Each Broker Option is exercisable at a price of $3.00 for a period of two years and entitles the holder to one common share of the Company and one warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $4.00 for a period of three years from the Broker Option issue date. As at June 30, 2022, the Broker Options are fully vested and exercisable.

As at June 30, 2022, the Company had the following Broker Options outstanding and exercisable:

| (000s, except per broker option price) Expiry date | Exercise price | Broker options outstanding and exercisable |
|---|---|---|
| June 4, 2023 (1) | 2.40 | 566 |
| March 10, 2024 (2) | 3.00 | 399 |
| | | 965 |

(1) 566,144 broker options, each exercisable at $2.40 into one common share and 20 warrants. Warrants exercisable on a 20:1 per exercise basis at $0.16 per warrant expiring June 4, 2023.

(2) 399,165 broker options, each exercisable at $3.00 into one common share and one warrant. Warrants exercisable on a 1:1 per exercise basis at $4.00 per warrant expiring March 10, 2025.

**Stock options**

The Company has an incentive stock option plan (the "Option Plan") in place under which it is authorized to grant stock options to directors, officers, and employees enabling them to acquire common shares of the Company upon exercise. The stock options granted pursuant to the Option Plan are granted for maximum term of 5 years, and vest either at 25% upon grant and 12.5% at the end of every quarter after the grant date, 10% upon grant and 7.5% at the end of every quarter after the grant date, or 1/3 on each of the first, second and third anniversary after the grant date. Vesting conditions are determined by the Board of Directors. A summary of the changes in stock options outstanding is as follows:

| (000s, except per option price) | Stock options | June 30, 2022 Weighted average exercise price | Stock options | December 31, 2021 Weighted average exercise price |
|---|---|---|---|---|
| Balance, beginning of period | **1,983** | **2.49** | 1,376 | 2.51 |
| Granted | **-** | **-** | 800 | 2.51 |
| Exercised | **-** | **-** | (20) | 2.50 |
| Expired | **-** | **-** | (145) | 2.69 |
| Forfeited/cancelled | **-** | **-** | (28) | 3.00 |
| Balance, end of period | **1,983** | **2.49** | 1,983 | 2.49 |

As at June 30, 2022, the following stock options were exercisable and outstanding:

| | | | **Stock options outstanding** | | | **Stock options exercisable** |
|---|---|---|---|---|---|---|
| (000s, except per option price) | **Number outstanding** | **Weighted average exercise price** | **Weighted average life remaining (years)** | **Number exercisable** | **Weighted average exercise price** | **Weighted average life remaining (years)** |
| 1.60 - 2.00 | 615 | 1.78 | 0.8 | 587 | 1.76 | 0.7 |
| 2.01 - 2.90 | 890 | 2.50 | 3.9 | 325 | 2.40 | 3.5 |
| 2.91 - 4.00 | 478 | 3.39 | 1.7 | 469 | 3.39 | 1.7 |
| | 1,983 | 2.49 | 2.4 | 1,381 | 2.47 | 1.6 |

During the six months ended June 30, 2022, the Company expensed $0.4 million (year ended 2021 – $0.5 million) and capitalized $0.1 million (year ended 2021 - $0.2 million) related to share-based compensation.

**Restricted Share Units**

The Company has a Restricted Share Unit and Deferred Share Unit Plan (the "RSU/DSU Plan") under which it is authorized to grant RSUs and DSUs to directors, officers, and employees. The RSUs granted under the RSU Plan are to be settled through the issuance of new common shares upon vesting. RSUs vest in three equal tranches with 1/3 on each of the first, second and third anniversary after the grant date. A summary of the changes in RSU's outstanding is as follows:

| (000s, except per RSU price) | RSUs | June 30, 2022 Weighted average exercise price | RSUs | December 31, 2021 Weighted average exercise price |
|---|---|---|---|---|
| Balance, beginning of period | **-** | **-** | - | - |
| Granted | **63** | **3.50** | - | - |
| Forfeited/Cancelled | **(9)** | **3.50** | - | - |
| Balance, end of period | **54** | **3.50** | - | - |

As at June 30, 2022, the following RSUs were exercisable and outstanding, subject to receipt of requisite TSX Venture Exchange and shareholder approval:

| | | | **RSUs outstanding** | | | **RSUs exercisable** |
|---|---|---|---|---|---|---|
| (000s, except per RSU price) | **Number outstanding** | **Weighted average exercise price** | **Weighted average life remaining (years)** | **Number exercisable** | **Weighted average exercise price** | **Weighted average life remaining (years)** |
| 3.50 | 54 | 3.50 | 2.6 | - | - | - |
| | 54 | 3.50 | 2.6 | - | - | - |

**Per share amounts**

Basic net income (loss) per share is calculated using the weighted-average number of common shares outstanding during the reporting period. Diluted net income per share is calculated using the weighted-average number of common shares outstanding adjusted for the dilutive effect of all potentially dilutive securities, including stock options, broker options, warrants, and convertible notes. Where applicable, diluted net loss per share is equal to basic net loss per share as the effect of all potential dilutive securities are anti-dilutive. The components of basic and diluted net income (loss) per share are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| (000s, except per share amounts) | **2022** | 2021 | **2022** | 2021 |
| Weighted average shares outstanding | | | | |
| Basic | **32,361** | 15,267 | **29,623** | 13,828 |
| Diluted | **32,992** | 15,267 | **29,623** | 13,828 |
| Per share income (loss) | | | | |
| Basic | **0.68** | (1.94) | **(2.56)** | (2.25) |
| Diluted | **0.66** | (1.94) | **(2.56)** | (2.25) |

## 10. REVENUE

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| Crude oil | **80,306** | 12,281 | **147,337** | 13,603 |
| NGLs | **1,254** | 201 | **2,231** | 201 |
| Natural gas | **670** | 107 | **1,103** | 107 |
| Petroleum and natural gas sales | **82,230** | 12,589 | **150,671** | 13,911 |
| Processing income | **727** | - | **1,400** | - |
| | **82,957** | 12,589 | **152,071** | 13,911 |

Petroleum and natural gas sales represent the proceeds received from the sale of oil, natural gas, and NGLs production under variable price contracts. The transaction price is based on a benchmark commodity price, adjusted for quality, location, processing charges or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenue is typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point. Included in accounts receivable as at June 30, 2022 is $29.3 million (December 31, 2021 – $18.0 million) of accrued petroleum and natural gas sales related to June 30, 2022 production.

Saturn generates oil treating, gas processing, and other services revenue from fees charged to third parties provided at facilities where Saturn has an ownership interest. This revenue is recorded as processing income.

## 11. FINANCING

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| Interest expense, cash | **3,487** | 880 | **6,295** | 1,167 |
| Interest expense, paid in kind | **-** | 857 | **569** | 1,531 |
| Amortization of original issue discount and debt issue costs | **1,065** | 446 | **2,026** | 446 |
| Accretion, debt instruments | **56** | 58 | **111** | 193 |
| Accretion, leases | **135** | 35 | **280** | 47 |
| Accretion, decommissioning obligations | **1,738** | 391 | **3,481** | 400 |
| Total financing costs | **6,481** | 2,667 | **12,762** | 3,784 |

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| Change in non-cash working capital: | | | | |
| Accounts receivable | **(486)** | (12,286) | **(11,292)** | (11,932) |
| Deposits and prepaid expenses | **(12,061)** | (27,820) | **(13,302)** | (27,783) |
| Accounts payable | **2,485** | 8,483 | **15,271** | 8,421 |
| | **(10,062)** | (31,623) | **(9,323)** | (31,294) |
| Related to: | | | | |
| Operating activities | **5,980** | (33,967) | **3,236** | (33,638) |
| Financing activities | **35** | - | **-** | - |
| Investing activities | **(16,077)** | 2,344 | **(12,559)** | 2,344 |
| Total change in non-cash working capital | **(10,062)** | (31,623) | **(9,323)** | (31,294) |

## 13. CAPITAL MANAGEMENT

The Company manages its capital to safeguard the Company's ability to continue as a going concern, so that it may provide adequate returns to shareholders and benefits to other stakeholders, and to have sufficient funds on hand for business opportunities as they arise. The Company's capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, modifying capital spending programs and disposing of assets; the availability of any such means being dependent upon market conditions. Management reviews its approach to capital management on an ongoing basis and believes that this approach is appropriate. There were no changes in the Company's approach to capital management during the period ended June 30, 2022.

**Adjusted funds flow**

The Company considers Adjusted Funds Flow to be a key capital management measure as it demonstrates Saturn's ability to generate the necessary funds to manage production levels and fund future growth through capital investment. Management believes that this measure provides an insightful assessment of Saturn's operations on a continuing basis by eliminating certain non-cash charges, actual settlements of decommissioning obligations, of which the nature and timing of expenditures are discretionary and transaction costs which vary based on the Company's acquisition and disposition activity. Adjusted Funds Flow is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities. The Company's Adjusted funds flow is calculated as follows.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| Cash flow from (used in) operating activities | **20,399** | (30,265) | **30,741** | (30,478) |
| Change in non-cash working capital | **(5,980)** | 31,623 | **(3,236)** | 31,294 |
| Decommissioning expenditures | **44** | - | **429** | - |
| Transaction costs | **-** | 1,526 | **-** | 1,526 |
| Adjusted Funds Flow | **14,463** | 2,884 | **27,934** | 2,342 |

**Net debt and total capitalization**

Management considers net debt a key capital management measure in assessing the Company's liquidity. The Company manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Total market capitalization and net debt to annualized quarterly adjusted funds flow are used by management and the Company's investors in analyzing the Company's balance sheet strength and liquidity.

| ($000s) | **June 30, 2022** | December 31, 2021 |
|---|---|---|
| Basic common shares outstanding (000s) | **32,361** | 25,165 |
| Share price[1] | **2.40** | 3.94 |
| Total market capitalization | **77,666** | 99,150 |

| | | |
|---|---|---|
| Adjusted working capital [2] | **(14,667)** | (65) |
| Long-term deposit (note 7) | **(21,021)** | (21,021) |
| Senior Term Loan | **90,795** | 65,055 |
| Promissory notes | **811** | 784 |
| Convertible notes | **2,280** | 2,197 |
| Term Notes | **-** | 24,104 |
| Net debt | **58,198** | 71,054 |
| Annualized quarterly adjusted funds flow | **57,852** | 38,924 |
| Net debt to annualized quarterly adjusted funds flow | **1.0x** | 1.8x |

(1) Represents the closing share price on the TSXV on the last day of trading of the period.
(2) Adjusted working capital is calculated as cash, accounts receivable, deposits and prepaids net of accounts payable.

**Adjusted EBITDA**

The Company considers Adjusted EBITDA to be a key capital management measure as it is both used within certain financial covenants prescribed under the Company's Senior Term Loan (note 8) and demonstrates Saturn's standalone profitability, operating and financial performance in terms of cash flow generation, adjusting for interest related to its capital structure. Adjusted EBITDA is defined by the Company as earnings before interest, taxes, depreciation, amortization and other non-cash items and is calculated as Adjusted funds flow before cash interest expense. Adjusted EBITDA is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities. The Company's Adjusted EBITDA is calculated as follows.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| ($000s) | **2022** | 2021 | **2022** | 2021 |
| Adjusted Funds Flow | **14,463** | 2,887 | **27,934** | 2,345 |
| Interest expense, cash | **3,487** | 880 | **6,295** | 1,167 |
| Adjusted EBITDA | **17,950** | 3,767 | **34,229** | 3,512 |

## 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

**Financial derivatives**

Saturn manages the risks associated with changes in commodity prices by entering into a variety of risk management commodity contracts classified as financial derivatives. The Company assesses the effects of movement in commodity prices on income (loss) before tax. A ten percent increase or decrease in commodity prices would have resulted in a $84.1 million change to unrealized gains (losses) on risk management contracts and net income (loss) before tax assuming all other variables remain constant.

The Company had the following outstanding financial derivative commodity contracts as at June 30, 2022:

| | WTI Collars | | WTI Swaps | | WTI Swaps | | WTI/MSW Differential | |
|---|---|---|---|---|---|---|---|---|
| Period | Volume (bbls/d) | Price [(1)] (US$/bbl) | Volume (bbls/d) | Price [(1)] (US$/bbl) | Volume (bbls/d) | Price [(1)] (CA$/bbl) | Volume (bbls/d) | Price [(1)] (US$/bbl) |
| Q3 2022 | 4,298 | 69.46 - 80.65 | 3,798 | 76.86 | - | - | 7,381 | (5.49) |
| Q4 2022 | 4,889 | 68.09 - 80.09 | 3,571 | 75.88 | - | - | 7,024 | (5.51) |
| Q1 2023 | 2,397 | 50.83 - 60.94 | 4,319 | 73.30 | 445 | 123.75 | 4,595 | (5.70) |
| Q2 2023 | 2,319 | 50.79 - 60.82 | 4,078 | 72.76 | 424 | 123.75 | 4,455 | (5.70) |
| Q3 2023 | 2,239 | 50.72 - 60.58 | 3,854 | 72.20 | 404 | 115.85 | 4,317 | (5.70) |
| Q4 2023 | 2,168 | 50.66 - 60.39 | 3,665 | 71.73 | 386 | 115.85 | 4,192 | (5.70) |
| Q1 2024 | 2,103 | 50.63 - 56.49 | 3,490 | 65.31 | 294 | 108.96 | - | - |
| Q2 2024 | 2,044 | 50.61 - 56.46 | 3,332 | 65.01 | 283 | 108.96 | - | - |
| Q3 2024 | 1,992 | 50.63 - 56.49 | 3,173 | 64.67 | 272 | 103.43 | - | - |
| Q4 2024 | 1,923 | 50.56 - 56.32 | 3,054 | 64.50 | 262 | 103.43 | - | - |
| Q1 2025 | 1,818 | 50.38 - 56.60 | 2,978 | 60.50 | 63 | 98.17 | - | - |
| Q2 2025 | 1,771 | 55.14 - 59.00 | 2,871 | 63.22 | 61 | 98.17 | - | - |
| Q3 2025 | 1,729 | 65.00 - 68.10 | 2,753 | 69.05 | 59 | 94.49 | - | - |
| Q4 2025 | 1,684 | 65.00 - 68.10 | 3,077 | 67.21 | 57 | 94.49 | - | - |
| Q1 2026 | 1,080 | 65.00 - 68.10 | 3,077 | 67.21 | - | - | - | - |
| Q2 2026 | - | - | 4,028 | 67.30 | - | - | - | - |

(1) Weighted average prices for the period.

Financial derivative assets and liabilities are only offset if the Company has the legal right to offset and intends to settle on a net basis or settle the instrument simultaneously. The Company offsets financial instrument assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same. The following table summarizes the gross asset and liability positions of the Company's financial derivative commodity contracts that are offset on the statements of financial position as at June 30, 2022:

| ($000s) | Gross financial derivative instruments | Amount offset | Net financial derivative instruments |
|---|---|---|---|
| Current asset | 9,425 | (8,685) | 740 |
| Long term asset | 24,672 | (23,615) | 1,057 |
| Current liability | (83,838) | 8,685 | (75,153) |
| Long term liability | (114,928) | 23,615 | (91,313) |
| **Net liability position** | **(164,669)** | **-** | **(164,669)** |

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company actively manages its liquidity risk through strategies such as prudent capital spending, an active commodity risk management program and by continuously monitoring forecast and actual cash flows from operating, financing and investing activities. Management believes it will have sufficient funding to meet foreseeable liquidity requirements. The Company has the following maturities of financial liabilities at June 30, 2022:

| ($000s) | Less than 1 year | 1-3 years | 3-5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| Senior Term Loan | 48,210 | 46,413 | - | - | 94,623 |
| Interest payments [(1)] | 10,236 | 5,122 | - | - | 15,358 |
| Promissory notes | - | 823 | - | - | 823 |
| Convertible notes | - | 2,329 | - | - | 2,329 |
| Lease liabilities [(2)] | 1,413 | 1,679 | 728 | 1,066 | 4,886 |
| Gas processing contracts | 943 | 1,886 | 1,886 | 7,150 | 11,865 |
| Accounts payable | 44,121 | - | - | - | 44,121 |
| | 104,923 | 58,252 | 2,614 | 8,216 | 174,005 |

(1) Represents cash interest payments on scheduled payment dates related to the Senior Term Loan.

(2) Represents the remaining undiscounted minimum lease payments on the company's lease liabilities.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arise principally from the Company's accounts receivable from oil and natural gas marketers and joint operators in the oil and gas industry. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production.

The Company's policy to mitigate credit risk going forward is to maintain marketing relationships with large, established and reputable purchasers that are considered to be creditworthy. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring financial obligations on behalf of joint venture partners. Joint venture receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting receivables. The Company does not request letters of credit in its favor from joint venture partners; however, the Company has the ability to withhold production from joint operating partners in the event of non-payment or is able to register security on the assets of joint operating partners.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to investment grade counterparties.

**Currency risk**

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated financial derivatives. A ten percent change in the US dollar would have resulted in a $0.9 million change to net income (loss) before tax (December 31, 2021 – $2.5 million) assuming all other variables remain constant. The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated financial derivatives.

**Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate from changes in market interest rates. The interest charged on the Senior Term Loan fluctuates with the interest rates based on Canadian dollar bankers' acceptance rates. The Company is exposed to interest rate risk related to the unpaid principal balance outstanding on the Senior Term Loan. A change in Canadian dollar bankers' acceptance rates by one percent would have changed net income (loss) by approximately $0.3 million during the period ended June 30, 2022 (December 31, 2021 – $0.2 million) assuming all other variables remain constant.

**Price risk**

The Company is exposed to price risk related to commodity and equity prices. Equity price risk is the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The ability of the Company to explore its resource properties and future profitability of the Company are directly related to the market price of commodities. Prices for oil are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

## 15. COMMITMENTS

The Company has the following contractual obligations and commitments as at June 30, 2022:

| ($000s) | Less than 1 year | 1-3 years | 3-5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| Senior Term Loan | 48,210 | 46,413 | - | - | 94,623 |
| Interest payments [1] | 10,236 | 5,122 | - | - | 15,358 |
| Promissory notes | - | 823 | - | - | 823 |
| Convertible notes | - | 2,329 | - | - | 2,329 |
| Lease liabilities [2] | 1,413 | 1,679 | 728 | 1,066 | 4,886 |
| Gas processing contracts | 943 | 1,886 | 1,886 | 7,150 | 11,865 |
| | 60,802 | 58,252 | 2,614 | 8,216 | 129,884 |

(1) Represents cash interest payments on scheduled payment dates related to the Senior Term Loan.

(2) Represents the remaining undiscounted minimum lease payments on the Company's lease liabilities.

## 16. SUBSEQUENT EVENTS

**Viking Acquisition**

On July 6, 2022, the Company completed an acquisition of certain oil and gas properties targeting the Viking formation in West Central Saskatchewan (the "Viking Acquisition") including production of approximately 4,000 boe/d (98% light oil and liquids) and 140 net sections of land. The Viking Acquisition had an effective date of May 1, 2022, and was completed for total cash consideration of $242.6 million, after interim closing adjustments. The Viking Acquisition was funded from proceeds through a combination of equity offerings and an expansion of the existing Senior Term Loan.

**Equity offerings**

On June 8, 2022, the Company completed a bought deal offering issuing 27,181,860 subscription receipts at a price of $2.75 for gross proceeds of $74.8 million. The gross proceeds, less applicable underwriters' fees and expenses were funded into in escrow subject to the closing of the Viking Acquisition. On July 6, 2022, funds were released from escrow to Saturn, and each subscription receipt was converted into one unit of the Company consisting of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for 12 months and a day following the date of issue at an exercise price of $3.20.

In partial consideration for services rendered in relation to the bought deal offering, the Company issued 1,619,962 Broker Options to the underwriters. Each Broker Option is exercisable at a price of $2.75 for a period of 12 months plus one day from the issue date of the warrants and entitles the holder to one common share of the Company and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire one common share for 24 months following the date of issue at an exercise price of $3.20.

On July 6, 2022, the Company completed a non-brokered offering of units issuing 145,573 units at a price of $2.75 for total proceeds of $0.4 million. Each unit consisted of one common share and one half of one warrant. Each whole warrant is exercisable on the same terms as the Warrants under the bought deal offering.

**Senior Term Loan expansion**

On July 6, 2022, the Company entered into an amended and restated senior secured loan agreement with its senior secured lender and expanded the Senior Term Loan by $200.0 million to an aggregate principal amount of $294.6 million at an original issue discount of 3.375%. The loan will amortize over three years, with 50% repayable in the first year, 30% in the second year and 20% in the final year. All principal repayments are subject to an exit fee of 2.5% on the aggregate principal amount of any such payment. The Senior Term Loan bears interest 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rates at a minimum rate of 1%. The Senior Term Loan has a revised stated maturity date of July 7, 2025.