

## SATURN OIL & GAS INC.

### Q2 2023 MANAGEMENT DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") is a review of the operational and financial results and outlook for Saturn Oil & Gas Inc. ("Saturn" or the "Company") as at June 30, 2023 and for the three and six months ended June 30, 2023 and 2022. This MD&A is dated and based on information available as at August 11, 2023 and should be read in conjunction with Company's unaudited condensed consolidated interim financial statements ("financial statements") and the notes thereto as at June 30, 2023 and for the three and six months ended June 30, 2023 and 2022. Additional information relating to Saturn, including Saturn's Annual Information Form for the year ended December 31, 2022, is available on SEDAR at [www.sedar.com](http://www.sedar.com) and Saturn's website at [www.saturnoil.com](http://www.saturnoil.com).

Throughout this MD&A and in other materials disclosed by the Company, Saturn adheres to generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (the "IASB"), however the Company also uses various specified financial measures (as defined in National Instrument 51-112 - Non-GAAP and Other Financial Measures ("NI 51-112")) including "non-GAAP financial measures", "non-GAAP ratios", "capital management measures" and "supplementary financial measures" to analyze financial performance including: "adjusted EBITDA" "adjusted funds flow", "annualized quarterly adjusted funds flow", "free funds flow", "capital expenditures", "capital expenditures net of A&D", "gross petroleum and natural gas sales", "net operating expense", "operating netbacks", "operating netbacks, net of derivatives", "adjusted working capital", "net debt", "net debt to annualized quarterly adjusted funds flow" and "enterprise value". These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Saturn's performance.

Readers are cautioned that the MD&A should be read in conjunction with disclosures in the sections entitled "Non-GAAP and Other Financial Measures" and "Advisories and forward-looking information".

### DESCRIPTION OF THE BUSINESS

Saturn is a Canadian resource company engaged in the business of acquiring, exploration and development of petroleum and natural gas resource deposits in Western Canada. The Company's current focus is to advance the exploration of its oil and gas properties in Alberta as well as Southeast and West Central Saskatchewan.

### Q2 2023 HIGHLIGHTS

- Realized record quarterly average production of 25,988 boe/d in 2023 compared to 7,324 boe/d in the second quarter of 2022 reflecting production contribution from the acquisition of Ridgeback Resources Inc.;
- Achieved record quarterly petroleum and natural gas sales of \$176.0 million, up from \$82.2 million in the second quarter of 2022 and \$131.4 million in the first quarter of 2023;
- Achieved an operating netback, net of derivatives<sup>(1)</sup> for the three months ended June 30, 2023 of \$41.87 per boe compared to \$29.91 per boe in the second quarter of 2022;
- Generated quarterly adjusted funds flow<sup>(1)</sup> of \$67.0 million in the three months ended June 30, 2023 compared to \$14.5 million in the comparable 2022 period primarily due to the Ridgeback and Viking Acquisitions;
- Invested \$13.8 million of development capital expenditures in the second quarter, drilling 7 (net 3.4) wells; including 2 in Southeast Saskatchewan and 5 in West Central Saskatchewan.
- Generated record second quarter free funds flow<sup>(1)</sup> of \$53.1 million, up from \$8.5 million in the second quarter of 2022;
- Reduced leverage, making \$50.7 million in principal repayments on the Senior Term Loan;
- Exited the period with \$510.2 million net debt<sup>(1)</sup>, realizing a net debt to annualized quarterly adjusted funds flow<sup>(1)</sup> of 1.9x;

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

## FINANCIAL AND OPERATING HIGHLIGHTS

(\$000s, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
<b>FINANCIAL HIGHLIGHTS</b>				
Petroleum and natural gas sales	176,034	82,230	307,441	150,671
Cashflow from operating activities	94,232	20,399	138,143	30,741
Operating netback, net of derivatives <sup>(1)</sup>	99,031	19,938	172,891	37,742
Adjusted EBITDA <sup>(1)</sup>	92,853	17,950	162,720	34,229
Adjusted funds flow <sup>(1)</sup>	66,954	14,463	121,415	27,934
per share - Basic	0.48	0.45	1.07	0.94
- Diluted	0.47	0.44	1.05	0.92
Free funds flow <sup>(1)</sup>	53,109	8,493	83,287	11,497
per share - Basic	0.38	0.26	0.74	0.39
- Diluted	0.37	0.26	0.72	0.38
Net income (loss)	51,273	21,855	270,323	(75,763)
per share - Basic	0.37	0.68	2.39	(2.56)
- Diluted	0.36	0.66	2.33	(2.56)
Acquisitions, net of cash acquired	1,439	(90)	466,662	7,493
Capital expenditures <sup>(1)</sup>	13,845	5,970	38,128	16,437
Total assets	1,332,816	347,201	1,332,816	347,201
Net debt <sup>(1)</sup> , end of period	510,185	58,198	510,185	58,198
Shareholders' equity (deficit)	581,040	(85,878)	581,040	(85,878)
Common shares outstanding, end of period	138,634	32,361	138,634	32,361
Weighted average, basic	138,634	32,361	112,957	29,623
Weighted average, diluted	141,742	32,992	116,089	30,397
<b>OPERATING HIGHLIGHTS</b>				
<b>Average production volumes</b>				
Crude oil (bbls/d)	19,425	6,722	17,066	6,771
NGLs (bbls/d)	2,137	287	1,567	310
Natural gas (mcf/d)	26,553	1,887	19,648	1,975
Total boe/d	25,988	7,324	21,908	7,410
% Oil and NGLs	83%	96%	85%	96%
<b>Average realized prices</b>				
Crude oil (\$/bbl)	92.39	131.28	92.97	120.22
NGLs (\$/bbl)	39.58	72.15	43.78	64.95
Natural gas (\$/mcf)	2.62	6.47	2.93	5.46
Processing expenses (\$/boe)	(0.56)	(1.61)	(0.65)	(1.69)
Petroleum and natural gas sales (\$/boe)	74.43	123.39	77.53	112.33
<b>Operating netback (\$/boe)</b>				
Petroleum and natural gas sales	74.43	123.39	77.53	112.33
Royalties	(6.96)	(19.12)	(7.92)	(17.85)
Net operating expenses <sup>(1)</sup>	(22.31)	(27.08)	(21.81)	(27.21)
Transportation expenses	(1.42)	(0.97)	(1.26)	(0.76)
Operating netback <sup>(1)</sup>	43.74	76.22	46.54	66.51
Realized loss on derivatives	(1.87)	(46.31)	(2.95)	(38.38)
Operating netback, net of derivatives <sup>(1)</sup>	41.87	29.91	43.59	28.13

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

## ACQUISITIONS

### Ridgeback Resources acquisition

On February 28, 2023, the Company completed a transformational corporate acquisition (the “Ridgeback Acquisition”) of Ridgeback Resources Inc. (“Ridgeback”) a privately held oil and gas producer focused on light oil production in Saskatchewan and Alberta. The Ridgeback Acquisition both bolsters Saturn's existing light oil production in Southeast Saskatchewan and adds highly economic play diversification with the expansion into Alberta. The synergistic Southeast Saskatchewan asset includes approximately 5,000 boe/d of high cash flow production and more than doubles the light oil volumes of Saturn's existing and adjoining core growth asset. The Alberta expansion offers a new core area for the Company with an entry into the Alberta Cardium play which includes approximately 8,800 boe/d of light oil focused production plus over 300 de-risked development drilling locations and provides further development opportunities within the Kaybob and Deer Mountain areas each with extensive operated infrastructure in place to drive low operating costs and realize high cash netbacks.

The Ridgeback Acquisition was completed for total consideration of approximately \$526 million, comprised of \$476 million in cash, and 19,406,167 common shares of the Company, resulting in a gain on acquisition of approximately \$184 million. The cash portion of the purchase price was funded through the net proceeds of a \$125 million bought deal equity financing and a \$375 million expansion to the Company's Senior Term Loan.

Results from the Ridgeback Acquisition are included in the Company's earnings and production volumes from the closing date of February 28, 2023 on a prospective basis. Accordingly, results for the six-month period ended June 30, 2023 includes four months of combined operational results. The determination of the purchase price is as follows:

(\$000s)	February 28, 2023
Fair value of net assets acquired:	
Cash	9,777
Net working capital deficit	(4,243)
Property, plant and equipment	718,829
Right-of-use asset	4,464
Deferred income tax asset	29,499
Net financial derivatives	(380)
Lease liability	(4,464)
Decommissioning obligations	(43,706)
Gain on acquisition	(183,851)
<b>Total</b>	<b>525,925</b>
Consideration:	
Cash	476,439
Common shares	49,486
<b>Total</b>	<b>525,925</b>

Had the Ridgeback Acquisition occurred on January 1, 2023, the incremental petroleum and natural gas sales and net income for the six-month period ended June 30, 2023, and the pro forma results would have been as follows:

(\$000s)	As stated	Acquisition prior to close date	(Unaudited) Pro Forma
Petroleum and natural gas sales	307,441	72,704	380,145
Net income	270,323	20,613	290,936

### Viking acquisition

On July 6, 2022, Saturn closed a synergistic acquisition (the “Viking Acquisition”) of assets targeting the Viking formation in West Central Saskatchewan (the “Viking Asset”). The Company acquired approximately 4,000 boe/d of high netback light oil production. The Viking Acquisition was completed for total cash consideration of \$240.9 million, after final closing adjustments.

## PRODUCTION

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Crude oil (bbls/d)	19,425	6,722	17,066	6,771
NGLs (bbls/d)	2,137	287	1,567	310
Natural gas (mcf/d)	26,553	1,887	19,648	1,975
Total boe/d	25,988	7,324	21,908	7,410
Crude oil and liquids %	83%	96%	85%	96%

Total average production volumes increased to 25,988 boe/d in the second quarter of 2023 from 7,324 boe/d in the second quarter of 2022. The increase primarily reflects production from the Ridgeback Acquisition, which contributed an average of 14,488 boe/d during the second quarter of 2023. The balance of the increase was attributed to the Viking Acquisition and the success of our H2 2022 and Q1 2023 drilling programs. Wildfires in Alberta impacted our Q2 2023 operations due to third-party infrastructure downtime, resulting in the curtailment of approximately 2,300 boe/d of production during the quarter.

Total average production volumes increased to 21,908 boe/d in the six months ended June 30, 2023 from 7,410 boe/d in the comparative 2022 period. The increase primarily reflects production from the Ridgeback Acquisition, which contributed an average of 10,189 boe/d during the six months ended June 30, 2023. The balance of the increase was attributed to the Viking Acquisition and the success of our H2 2022 and Q1 2023 drilling programs.

The following table summarizes Saturn's average production by business unit for the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30, 2023				Three months ended June 30, 2022			
	Crude oil (bbls/d)	NGLs (bbls/d)	Natural gas (mcf/d)	Total (boe/d)	Crude oil (bbls/d)	NGLs (bbls/d)	Natural gas (mcf/d)	Total (boe/d)
Southeast Saskatchewan	9,794	866	4,366	11,388	6,416	287	1,887	7,018
West Central Saskatchewan	4,764	20	454	4,860	306	-	-	306
Central Alberta	3,436	976	17,677	7,358	-	-	-	-
North Alberta	1,431	275	4,056	2,382	-	-	-	-
Total boe/d	19,425	2,137	26,553	25,988	6,722	287	1,887	7,324

	Six months ended June 30, 2023				Six months ended June 30, 2022			
	Crude oil (bbls/d)	NGLs (bbls/d)	Natural gas (mcf/d)	Total (boe/d)	Crude oil (bbls/d)	NGLs (bbls/d)	Natural gas (mcf/d)	Total (boe/d)
Southeast Saskatchewan	8,667	675	3,644	9,949	6,482	310	1,975	7,121
West Central Saskatchewan	4,917	16	442	5,007	289	-	-	289
Central Alberta	2,432	683	12,574	5,211	-	-	-	-
North Alberta	1,050	193	2,988	1,741	-	-	-	-
Total boe/d	17,066	1,567	19,648	21,908	6,771	310	1,975	7,410

### Southeast Saskatchewan

The core producing properties in Southeast Saskatchewan include our Oxbow assets, which are geologically concentrated within the Mississippian-aged, Midale and Frobisher oil formations and the Bakken assets concentrated in the Bakken formation of Southeast Saskatchewan. For the three months ended June 30, 2023, Southeast Saskatchewan produced 11,388 boe/d, an increase of 62% from 7,018 boe/d in the comparative 2022 period. For the six months ended June 30, 2023, Southeast Saskatchewan produced 9,949 boe/d, an increase of 40% from 7,121 boe/d in the comparative 2022 period. The increase is primarily due to the Ridgeback Acquisition which contributed an average of 4,746 boe/d in Southeast Saskatchewan during the second quarter of 2023 and an average of 3,236 boe/d year-to-date.

## West Central Saskatchewan

The core producing properties in West Central Saskatchewan consist of our Viking assets, which produced 4,860 boe/d for the three months ended June 30, 2023, compared to 306 boe/d in the prior year. For the six months ended June 30, 2023, West Central Saskatchewan produced 5,007 boe/d compared to 289 boe/d in the prior year comparative period. The increase is due to the Viking Acquisition completed during the third quarter of 2022 and successful execution of our H2 2022 and Q1 2023 drilling programs.

## Central Alberta

The core producing properties in Central Alberta consist of our Cardium assets, which were acquired as part of the Ridgeback Acquisition. For the three and six months ended June 30, 2023, Central Alberta produced 7,358 boe/d and 5,211 boe/d, respectively, despite being impacted by the Alberta wildfires in May 2023, which resulted in the curtailment of approximately 1,556 boe/d during the quarter.

## North Alberta

The core producing properties in North Alberta consist of assets located in the Kaybob and Deer Mountain areas of Alberta, which were acquired as part of the Ridgeback Acquisition. For the three and six months ended June 30, 2023, North Alberta produced 2,382 boe/d and 1,741 boe/d respectively, despite being impacted by the Alberta wildfires in May 2023, which resulted in the curtailment of approximately 707 boe/d during the quarter.

## BENCHMARK AND REALIZED PRICES

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Average benchmark prices				
WTI (US\$/bbl) <sup>(1)</sup>	73.75	108.41	74.92	101.37
Exchange rate (US\$/C)	1.34	1.28	1.35	1.27
WTI (CA\$/bbl)	99.08	138.67	100.97	128.79
MSW Par at Edmonton (\$/bbl) <sup>(2)</sup>	94.92	137.82	96.98	127.31
Midale Par at Cromer (\$/bbl)	91.16	138.60	89.27	127.24
LSB Par at Cromer (\$/bbl) <sup>(3)</sup>	93.83	137.41	94.04	126.34
AECO natural gas (\$/mcf) <sup>(4)</sup>	2.45	6.99	2.84	5.79
Average realized prices				
Crude oil (\$/bbl)	92.39	131.28	92.97	120.22
NGLs (\$/bbl)	39.58	72.15	43.78	64.95
Natural gas (\$/mcf)	2.62	6.47	2.93	5.46
Processing expenses (\$/boe)	(0.56)	(1.61)	(0.65)	(1.69)
Petroleum and natural gas sales (\$/boe)	74.43	123.39	77.53	112.33

(1) West Texas Intermediate average calendar price

(2) Mixed Sweet Blend ("MSW")

(3) Light Sour Blend ("LSB")

(4) AECO 5A Daily Index Price

For the three and six months ended June 30, 2023, the Company realized a combined price for petroleum and natural gas of \$74.43 per boe and \$77.53 per boe versus \$123.39 per boe and \$112.33 per boe in the comparative 2022 period.

Most of the Company's revenue is from the sale of crude oil which varies based on sales point and certain par prices. The Company's realized price for crude oil from Southeast Saskatchewan is primarily based on the LSB and Midale par prices at Cromer, while the realized prices for crude oil in Central Alberta and West Central Saskatchewan are primarily based on the MSW Par price at Edmonton. The Company's average realized oil price for the second quarter was \$92.39 per bbl, a 30% decrease from \$131.28 per bbl in the second quarter of 2022. The Company's average realized oil price for the six months ended June 30, 2023 was \$92.97 per bbl, a 23% decrease from \$120.22 per bbl in the six months ended June 30, 2022. The decrease in realized pricing is consistent with the decrease in benchmark prices.

## PETROLEUM AND NATURAL GAS SALES

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Crude oil	163,314	80,306	287,171	147,337
NGLs	7,699	1,882	12,422	3,647
Natural gas	6,334	1,112	10,434	1,952
Gross petroleum and natural gas sales <sup>(1)</sup>	177,347	83,300	310,027	152,936
Less: Processing expenses	(1,313)	(1,070)	(2,586)	(2,265)
Petroleum and natural gas sales	176,034	82,230	307,441	150,671

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

Gross petroleum and natural gas sales increased for the three and six months ended June 30, 2023 due primarily to additional volumes associated with the Ridgeback and Viking Acquisitions, partially offset by lower realized prices. Certain gas processing expenses are deducted from gross realized prices received due to product custody transfer at the gas processing terminal inlet. The Company presents this on a gross and net basis to demonstrate the actual realized prices received prior to netting. The above adjustments do not have an impact on the Company's netback.

## ROYALTIES

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Royalties	16,449	12,741	31,395	23,938
% of gross petroleum and natural gas sales <sup>(1)</sup>	9.3%	15.3%	10.1%	15.7%
\$ per boe	6.96	19.12	7.92	17.85

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

Royalties increased for the three and six months ended June 30, 2023, on a total basis, commensurate with higher petroleum and natural gas sales. Royalties as a percentage of gross petroleum and natural gas sales decreased for the three and six months ended June 30, 2023, which was primarily attributable to the Ridgeback Acquisition, reflecting lower associated royalties on acquired Alberta assets than the Company's Southeast Saskatchewan Oxbow assets. Saturn pays royalties to the provincial governments, freehold landowners and other third parties by way of contractual overriding royalties.

## NET OPERATING EXPENSES

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Operating expenses	55,445	18,772	91,123	37,896
Less: processing income	(2,685)	(727)	(4,646)	(1,400)
Net operating expenses <sup>(1)</sup>	52,760	18,045	86,477	36,496
\$ per boe <sup>(1)</sup>	22.31	27.08	21.81	27.21

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

Net operating expenses increased for the three and six months ended June 30, 2023, due to increased field activity following the Ridgeback and Viking Acquisitions. Net operating expenses per boe decreased for the three and six months ended June 30, 2023, due to lower costs associated with the Ridgeback and Viking Acquisitions, as fixed costs are spread over larger production volumes.

## TRANSPORTATION EXPENSES

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Transportation expenses	3,369	646	4,978	1,013
\$ per boe	1.42	0.97	1.26	0.76

Transportation expenses increased for the three and six months ended June 30, 2023, on a total and per boe basis, due primarily to pipeline tariffs associated with the Ridgeback Acquisition.

## RISK MANAGEMENT AND COMMODITY FINANCIAL DERIVATIVES

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Realized gain (loss) on derivatives	(4,425)	(30,859)	(11,700)	(51,482)
Unrealized gain (loss) on derivatives	51,555	13,651	84,039	(90,145)
Realized gain (loss) on derivatives \$ per boe	(1.87)	(46.31)	(2.95)	(38.38)

The Company uses commodity risk management contracts which are classified as financial derivatives to manage exposure to commodity price volatility. Details of open commodity contracts as at June 30, 2023 are described in “Market Risk” section below.

For the three and six months ended June 30, 2023, the Company realized a loss on its financial commodity contracts of \$4.4 million and \$11.7 million compared to \$30.9 million and \$51.5 million in the comparable periods. The realized loss is a result of market prices for crude oil and natural gas settling at levels above those set in our derivative contracts. The decrease in realized loss on derivatives reflects the decrease in market prices from those in the comparative 2022 periods. Saturn has not designated any financial commodity contracts as hedges, and as a result the unrealized gains and losses are a result of the non-cash change in the mark-to-market values period over period. At June 30, 2023, the outstanding financial commodity contracts had a net asset of \$0.2 million (December 31, 2022 - \$83.4 million liability).

## GENERAL AND ADMINISTRATIVE EXPENSES

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
General and administrative expenses	6,144	1,485	10,059	2,980
\$ per boe	2.60	2.23	2.54	2.22

General and administrative (“G&A”) expenses increased for the three and six months ended June 30, 2023, due to higher personnel costs from an expanded employee base and associated growth costs of the organization as a result of the Ridgeback and Viking Acquisitions.

## DEPLETION, DEPRECIATION AND AMORTIZATION

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Depletion, depreciation and amortization	40,117	6,007	65,918	13,882
\$ per boe	16.96	9.01	16.62	10.35

Saturn records depletion, depreciation and amortization (“DD&A”) on its property, plant and equipment (“PP&E”) over the useful lives of the assets employing the unit of production method using proved plus probable oil and natural gas reserves and associated future development capital required for its petroleum and natural gas assets, and a declining balance method for its corporate administrative assets.

DD&A expense increased for the three and six months ended June 30, 2023, due to an increase in the carrying value of PP&E attributed to the Ridgeback and Viking Acquisitions. The increase in DD&A on a per boe basis was primarily due to a smaller relative increase in the reserve base over the depletable base as a result of the Ridgeback and Viking Acquisitions.

## SHARE BASED COMPENSATION

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Share based compensation	2,011	170	3,051	357
\$ per boe	0.85	0.26	0.77	0.27

The Company has a Long Term Incentive Plan (“LTIP”), under which it is authorized to grant stock options, Restricted Share Units (“RSUs”), Deferred Share Units (“DSUs”) and Performance Share Units (“PSUs”) to directors, officers, and employees of Saturn.

Share-based compensation expense increased for the three and six months ended June 30, 2023, primarily due to RSUs granted to employees at the beginning of April 2023 and the performance warrants granted during the first quarter of 2023.

## FINANCING EXPENSES

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Interest expense, cash	26,398	3,487	42,334	6,296
Interest revenue	(499)	-	(1,029)	-
Interest expense, paid in kind	-	-	-	569
Amortization of original issue discount and debt issue costs	1,402	1,065	2,523	2,026
Accretion, debt instruments	35	56	71	111
Accretion, leases	312	135	541	280
Accretion, decommissioning obligations	3,842	1,738	6,449	3,481
Financing expenses	31,490	6,481	50,889	12,762

Financing expenses increased for the three and six months ended June 30, 2023, due primarily to higher cash interest expense related to the expanded Senior Term Loan and accretion on decommissioning obligations related to the Ridgeback and Viking Acquisitions.

## LOSS ON DEBT EXTINGUISHMENT

On February 28, 2023, the Company expanded its Senior Term Loan by \$375.0 million in relation to the Ridgeback Acquisition. Accordingly, the pre-existing unamortized original issue discount and new debt issue costs were expensed in the period.

The following tables reconciles the February 28, 2023 loss on debt extinguishment:

(\$000s)	Amount
Senior Term Loan principal outstanding (pre-expansion)	233,194
Senior Term Loan unamortized debt issue costs	(4,043)
Senior Term Loan carrying value	229,151
Senior Term Loan extinguished	(233,194)
New debt issue costs	(4,222)
Loss on debt extinguishment	(8,265)
Comprised of:	
Senior Term Loan unamortized debt issue costs, non-cash	(4,043)
New debt issue costs	(4,222)
Loss on debt extinguishment	(8,265)

## DEFERRED TAXES

For the three and six months ended June 30, 2023, the Company recognized a net deferred income tax expense of \$17.2 million and \$29.8 million compared to a deferred income tax recovery of \$0.1 million and \$1.9 million in the comparative 2022 period. For the three and six months ended June 30, 2023, the deferred income tax expense is primarily the result of the pre-tax income generated during the period. For the three and six months ended June 30, 2022, the recovery is a result of the deferred tax asset recognition which offsets the deferred tax liability recorded net of property plant and equipment in the purchase price of the Viking Acquisition.



## FINANCIAL RESULTS OF OPERATIONS

(\$000s, except per boe amounts)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cashflow from operating activities	<b>94,232</b>	20,399	<b>138,143</b>	30,741
per share - Basic	<b>0.68</b>	0.63	<b>1.22</b>	1.04
- Diluted	<b>0.66</b>	0.62	<b>1.19</b>	1.01
Adjusted funds flow <sup>(1)</sup>	<b>66,954</b>	14,463	<b>121,415</b>	27,934
per share - Basic	<b>0.48</b>	0.45	<b>1.07</b>	0.94
- Diluted	<b>0.47</b>	0.44	<b>1.05</b>	0.92
Free funds flow <sup>(1)</sup>	<b>53,109</b>	8,493	<b>83,287</b>	11,497
per share - Basic	<b>0.38</b>	0.26	<b>0.74</b>	0.39
- Diluted	<b>0.37</b>	0.26	<b>0.72</b>	0.38
Net income (loss)	<b>51,273</b>	21,855	<b>270,323</b>	(75,763)
per share - Basic	<b>0.37</b>	0.68	<b>2.39</b>	(2.56)
- Diluted	<b>0.36</b>	0.66	<b>2.33</b>	(2.56)

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

Adjusted funds flow increased for the three and six months ended June 30, 2023, primarily due to the Ridgeback and Viking Acquisitions, which resulted in increased petroleum and natural gas sales, offset in part by increased royalties, operating expenses, transportation expenses and G&A, coupled with higher interest costs associated with the Senior Term Loan expansion.

For the three and six months ended June 30, 2023, the Company generated net income of \$51.3 million and \$270.3 million compared to net income of \$21.9 million during the three months ended June 30, 2022 and a net loss of \$75.8 million during the six months ended June 30, 2022. The increase in net income for the three months ended June 30, 2023 was primarily due to an increase in the unrealized gain on derivatives and increased funds flow over the prior year period. The increase in net income for the six months ended June 30, 2023 was primarily due to an unrealized gain on derivatives compared to an unrealized loss previously, increased funds flow period over period, and a gain on the Ridgeback Acquisition.

## CAPITAL EXPENDITURES

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Drilling and completions	<b>6,003</b>	2,746	<b>22,784</b>	9,944
Facilities	<b>4,371</b>	1,227	<b>9,640</b>	3,359
Land and lease	<b>451</b>	-	<b>457</b>	12
Capitalized G&A and other	<b>2,483</b>	1,571	<b>4,638</b>	2,049
PP&E expenditures	<b>13,308</b>	5,544	<b>37,519</b>	15,364
E&E expenditures	<b>537</b>	426	<b>609</b>	1,073
Capital expenditures	<b>13,845</b>	5,970	<b>38,128</b>	16,437
Corporate acquisition, net of cash acquired	<b>1,439</b>	-	<b>466,662</b>	-
Property acquisition/disposition	-	(90)	-	7,493
Capital expenditures, net of A&D	<b>15,284</b>	5,880	<b>504,790</b>	23,930

	Three months ended June 30,				Six months ended June 30,			
	2023		2022		2023		2022	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Wells drilled	<b>7</b>	<b>3.4</b>	2	2.0	<b>15</b>	<b>14.8</b>	10	10.0

During the three months ended June 30, 2023, the Company drilled 7 (net 3.4) wells: 2 in Southeast Saskatchewan and 5 in West Central Saskatchewan. For the six months ended June 30, 2023, the Company drilled 15 (net 14.8) wells: 8 in West Central Saskatchewan and 7 in Southeast Saskatchewan. Further workovers/re-activations of existing non-producing wells were also performed.

## LIQUIDITY AND CAPITAL RESOURCES

### Senior Term Loan

On February 28, 2023, the Company entered into a Third Amended and Restated Senior Term Loan Agreement with its senior secured lender and expanded the Senior Term Loan by \$375.0 million to an aggregate principal amount of \$608.2 million at an original issue discount of 2.5%. The loan will amortize over three years with repayment dates as follows: February 28, 2023 to April 30, 2023 of \$nil, May 1, 2023 to April 30, 2024 of \$25.4 million per month, May 1, 2024 to April 30, 2025 of \$15.2 million per month and May 1, 2025 to February 28, 2026 of \$10.2 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 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rates at a minimum rate of 1%. The amended Senior Term Loan has a stated maturity date of February 28, 2026.

The Senior Term Loan is subject to various covenants on the part of the Company. As at June 30, 2023, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The first key financial covenant test period for the First Lien Net Leverage Ratio is scheduled for June 30, 2023. The following table summarizes the current key financial covenants as set forth in the credit agreement:

Covenant description	Covenant Ratio	June 30, 2023
PDP Asset Coverage Ratio Minimum <sup>(1)</sup>	1.75	1.78
Current Ratio Minimum <sup>(2)</sup>	1.00	1.38
First Lien Net Leverage Ratio Maximum <sup>(3)</sup>	1.75	1.37

(1) The ratio of (a) the PV10 of Saturn's proved developed producing ("PDP") reserves 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 financial derivatives, to (b) current liabilities; excluding the current portion of the Senior Term Loan, financial derivatives and lease liabilities.

(3) The ratio of (a) the Senior Term Loan net of cash, to (b) annualized earnings before interest, taxes, depreciation, amortization and other non-cash items ("Adjusted EBITDA").

### Unsecured letter of credit facility

The Company has a new \$30 million unsecured demand letter of credit facility (the "LC Facility") with a syndicate of Canadian banks. Saturn's obligations under the LC Facility are supported by a performance security guarantee ("PSG") from Export Development Canada. The PSG is subject to annual renewal with the next scheduled renewal date of February 29, 2024. At June 30, 2023, \$29.7 million was drawn under the LC Facility (December 31, 2022 – \$nil).

### Convertible notes

As at June 30, 2023, the Company has a \$1.3 million (December 31, 2022 - \$1.3 million) and a \$1.0 million (December 31, 2022 - \$1.0 million) convertible note payable due to a shareholder. Each note bears interest at 5% per annum and is subordinated until July 2025. The convertible note payable and unpaid interest is convertible into shares of the Company at the option of the holder at a conversion price of \$2.00 per share for the \$1.3 million convertible note and at \$3.00 per share for the \$1.0 million convertible note. As at June 30, 2023, the convertible notes had a carrying value of \$2.4 million.

Subsequent to June 30, 2023, the \$1.3 million convertible note was converted into 679,112 common shares of the Company at a price of \$2.00 per share.

### Promissory note

During the three months ended June 30, 2023, the Company settled the note payable owing to a shareholder in the amount of \$0.8 million. (December 31, 2022 - \$0.8 million). Prior to settlement, the note payable had an interest rate of 2% and was subordinated until July 2025.

### Liquidity

The Company generally relies on internal profitability measured by Adjusted funds flow, debt financing and equity issuances to fund its capital requirements and provide liquidity. To the extent possible, Saturn has attempted to mitigate certain risks by entering into financial derivative commodity contracts to reduce the financial impact of downward commodity price movements on a portion of our anticipated production. Future liquidity depends primarily on profitability and the ability to

access debt and equity markets. All principal repayments on the Senior Term Loan that are due within twelve months are presented as current liabilities on the statement of financial position with the remainder classified as non-current. The Company believes that the capital structure of the company coupled with the projected Adjusted funds flow will satisfy Saturn's successful continuing operations.

Further discussion on the equity offerings completed by the Company in 2023 are described in "Share Capital" section below.

### Net debt and enterprise value

Management considers net debt a key measure in assessing the Company's liquidity. Saturn's net debt totaled \$510.2 million as at June 30, 2023 compared to \$219.8 million as at December 31, 2022. The Company's net debt to annualized quarterly adjusted funds flow was 1.9 times at June 30, 2023, which includes the contribution of adjusted funds flow coming from the Ridgeback Acquisition and related Senior Term Loan expansion that occurred on February 28, 2023.

(\$000s)	June 30, 2023	December 31, 2022
Net debt	510,185	219,803
Total market capitalization <sup>(1)</sup>	303,608	140,746
Enterprise value	813,793	360,549
Net debt as percentage of enterprise value	63%	61%
Annualized quarterly adjusted funds flow	267,816	202,916
Net debt to annualized quarterly adjusted funds flow	1.9x	1.1x

<sup>(1)</sup> Calculated as 138,633,786 common shares outstanding multiplied by the TSX closing share price on the last day of trading of the period.

### Off-balance sheet transactions

The Company is not party to any material arrangements that would be excluded from the statement of financial position other than disclosed in the commitments section of this MD&A.

### SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value.

On February 28, 2023, the Company completed a bought-deal equity financing issuing 59,242,000 common shares at a price of \$2.11 per common share for gross proceeds of \$125.0 million, incurred associated share issue costs of \$8.3 million and issued 19,406,167 common shares as partial consideration related to the Ridgeback Acquisition.

As at the date of this MD&A, June 30, 2023 and December 31, 2022, the following common shares are outstanding and/or remain issuable upon exercise of the underlying securities.

(000s) Number of securities	August 11, 2023	June 30, 2023	December 31, 2022
Common shares outstanding	138,634	138,634	59,892
Warrants	6,871	20,535	36,520
Performance warrants	7,000	7,000	-
Broker options	798	3,228	4,254
Restricted share units	2,314	2,314	45
Stock options	1,219	1,219	1,687
Convertible notes	354	1,033	912
Performance share units	667	667	-
Fully diluted shares outstanding	157,857	174,630	103,310

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company has the following contractual obligations and commitments as at June 30, 2023:

(\$000s)	Less than 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Senior Term Loan	284,027	273,444	-	-	557,471
Interest payments <sup>(1)</sup>	77,523	45,154	-	-	122,677
Convertible notes	-	2,743	-	-	2,743
Lease liabilities <sup>(2)</sup>	4,852	5,468	969	700	11,989
Gas processing contracts	4,203	4,409	1,886	6,208	16,706
	370,605	331,218	2,855	6,908	711,586

(1) Represents cash interest payments on scheduled payment dates related to the Senior Term Loan, at the period end Canadian dollar bankers' acceptance rate.

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

## RISKS AND UNCERTAINTIES

Factors beyond Saturn's control may determine whether any oil and gas reserves the Company discovers are sufficiently economic to be developed. The determination of whether petroleum and natural gas deposits are economic is affected by numerous factors beyond Saturn's control. These factors include market fluctuations for oil and gas; the costs of access and surface rights; and government regulations governing prices, taxes, royalties, land tenure, land use, importing and exporting of resources and environmental protection.

Land reclamation requirements for exploration and development properties may be burdensome. Although variable depending on location and the governing authority, land reclamation requirements are generally imposed on companies in extractive industries such as oil and gas or mining in order to minimize long-term effects of land disturbance. Reclamation may include requirements to control dispersion of potentially deleterious effluents and reasonably re-establish pre-disturbance landforms and vegetation. In order to carry out reclamation obligations imposed on the Company in connection with ongoing exploration and development, Saturn must allocate financial resources that might otherwise be spent on further exploration and development programs.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. While the Company is exposed to liquidity risk, it actively manages it through strategies such as prudent capital spending, an active commodity risk management program; shown in the market risk section below, 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.

### 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 that 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 25<sup>th</sup> 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 \$0.3 million change to net income (loss) before tax (December 31, 2022 – \$8.9 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 as a result of changes in market interest rates. The interest charged on the Senior Term Loan fluctuates with the interest rates associated with the periodic outstanding term 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 \$1.0 million during the period ended June 30, 2023 (December 31, 2022 – \$2.1 million) assuming all other variables remain constant.

### **Price risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as 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 defined as 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 and gas are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

### **Market risk**

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 before tax. A ten percent increase or decrease in commodity prices would have resulted in a \$116.0 million change to unrealized gains or (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, 2023:

Period	WTI Collars				WTI Swaps				WTI/MSW Differential			
	Volume bbls/d	Price <sup>(1)</sup> US/bbl	Volume bbls/d	Price <sup>(1)</sup> CA/bbl	Volume bbls/d	Price <sup>(1)</sup> US/bbl	Volume bbls/d	Price <sup>(1)</sup> CA/bbl	Volume bbls/d	Price <sup>(1)</sup> US/bbl	Volume bbls/d	Price <sup>(1)</sup> CA/bbl
Q3 2023	2,239	50.72-60.58	3,000	96.67-106.44	3,854	72.20	3,866	103.16	4,317	(5.70)	8,642	(4.07)
Q4 2023	2,168	50.66-60.39	3,000	96.67-106.44	3,665	71.73	3,346	102.78	4,192	(5.70)	7,987	(5.07)
Q1 2024	2,103	50.63-56.49	-	-	3,490	65.31	5,989	100.50	-	-	11,583	(5.46)
Q2 2024	2,044	50.61-56.46	-	-	3,332	65.01	5,643	100.52	-	-	11,020	(6.25)
Q3 2024	1,992	50.63-56.49	-	-	3,173	64.67	5,366	96.40	-	-	7,142	(6.25)
Q4 2024	1,923	50.56-56.32	-	-	3,054	64.50	5,118	96.41	-	-	-	-
Q1 2025	1,818	50.38-54.60	-	-	2,978	60.50	4,906	91.80	-	-	-	-
Q2 2025	1,771	55.14-59.00	-	-	2,871	63.22	4,680	91.80	-	-	-	-
Q3 2025	1,729	65.00-68.10	-	-	2,753	69.05	4,483	88.72	-	-	-	-
Q4 2025	1,684	65.00-68.10	-	-	2,637	68.99	4,304	88.72	-	-	-	-
Q1 2026	1,080	65.00-68.10	-	-	3,077	67.21	4,156	85.22	-	-	-	-
Q2 2026	-	-	-	-	4,028	67.30	3,989	85.22	-	-	-	-
Q3 2026	-	-	-	-	-	-	7,735	82.86	-	-	-	-
Q4 2026	-	-	-	-	-	-	7,467	82.86	-	-	-	-
Q1 2027	-	-	-	-	-	-	5,150	79.85	-	-	-	-

<sup>(1)</sup> Weighted average prices for the period

### General risks

Petroleum and natural gas exploration and production can involve environmental risks such as litigation, physical and regulatory risks. Physical risks include the pollution of the environment, climate change and destruction of natural habitat, as well as safety risks such as personal injury. The Company works hard to identify the potential environmental impacts of its new projects in the planning stage and during operations. The Company conducts its operations with high standards in order to protect the environment, its employees and consultants, and the general public. Saturn maintains current insurance coverage for comprehensive and general liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect current corporate requirements, as well as industry standards and government regulations. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities could reduce or eliminate its available funds or could exceed the funds the Company has available and result in financial distress.

### Climate change risks

Our exploration and production infrastructure and other operations and activities emit greenhouse gases ("GHG") which may require us to comply with federal and/or provincial GHG emissions legislation. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place to prevent climate change or mitigate our effects. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on our business, financial condition, results of operations and prospects. Some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, climate change has been linked to long-term shifts in climate patterns and extreme weather conditions both of which pose the risk of causing operational difficulties.

## SUMMARY OF QUARTERLY RESULTS

(\$000s, except per boe amounts)	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<b>Financial:</b>								
Petroleum and natural gas sales	<b>176,034</b>	131,407	111,558	105,728	82,230	68,442	54,481	47,822
Cashflow from operations	<b>94,232</b>	46,794	58,100	13,472	20,399	10,342	13,033	16,160
Net income (loss)	<b>51,273</b>	219,050	(16,728)	167,307	21,855	(97,618)	(10,629)	(23,307)
Basic (\$/share)	<b>0.37</b>	2.52	(0.28)	2.89	0.68	(3.63)	(0.55)	(0.05)
Diluted (\$/share)	<b>0.36</b>	2.51	(0.28)	2.87	0.66	(3.63)	(0.55)	(0.05)
Acquisitions	<b>1,439</b>	465,223	805	240,070	(90)	7,583	2,818	2,660
Capital expenditures <sup>(1)</sup>	<b>13,845</b>	24,283	35,676	36,991	5,970	10,466	4,048	4,445
Total assets	<b>1,332,816</b>	1,397,679	582,907	593,594	347,201	268,568	221,106	228,564
Common shares outstanding (000s)	<b>138,634</b>	138,634	59,892	59,839	32,361	32,361	25,165	25,145
<b>Operational:</b>								
Average daily production								
Crude oil (bbls/d)	<b>19,425</b>	14,680	11,590	10,163	6,722	6,821	6,549	6,413
NGLs (bbls/d)	<b>2,137</b>	992	428	363	287	334	356	278
Natural gas (mcf/d)	<b>26,553</b>	12,666	2,971	2,634	1,887	2,063	2,246	1,673
Total (boe/d)	<b>25,988</b>	17,783	12,514	10,965	7,324	7,499	7,279	6,970

<sup>(1)</sup> See Non-GAAP and Other Financial Measures

In the second quarter of 2023, despite the Alberta wildfires impacting operations, the Company achieved record Adjusted funds flow of \$67.0 million driven by record production of 25,988 boe/d and an Operating netback, net of derivatives of \$41.87 per boe. The Company made \$50.7 million in principal repayments on the Senior Term Loan and invested \$13.8 million in capital expenditures resulting in an ending net debt balance of \$510.2 million.

In the first quarter of 2023, the Company completed the Ridgeback Acquisition for total consideration of \$525 million, comprised of \$475 million in cash, and 19,406,167 common shares resulting in a gain on acquisition of \$185.3 million. The cash portion of the purchase price was funded through the net proceeds of a \$125 million bought deal equity financing and a \$375 million expansion to the Senior Term Loan. The Company realized Adjusted funds flow of \$54.5 million, made \$12.3 million in principal repayments on the Senior Term Loan and invested \$24.3 million in capital expenditures resulting in net debt of \$556.6 million. The Company generated record quarterly petroleum and natural gas sales of \$131.4 million, driven primarily by record production of 17,783 boe/d.

In the fourth quarter of 2022, the Company invested \$35.7 million in capital expenditures, drilling 16 wells (15.6 net). Principal repayments on the Senior Term Loan of \$36.9 million were made resulting in net debt of \$219.8 million. A record \$50.7 million in Adjusted funds flow was achieved primarily due to an Operating netback, net of derivatives of \$56.17 per boe and production of 12,514 boe/d. The quarterly sales, pricing, production, net income, cash flow from operations, Adjusted funds flow and capital expenditures are discussed in the previous sections of this MD&A.

In the third quarter of 2022, the Company invested \$240.1 million in property acquisitions relating to the Viking Acquisition and \$37.0 million in capital expenditures. The Senior Term loan was expanded by \$200.0 million and accompanying equity offerings provided additional gross proceeds of \$75.2 million to fund the Viking Acquisition. Principal repayments on the Senior Term Loan of \$12.3 million were made resulting in net debt of \$232.7 million. A record \$39.8 million in Adjusted Funds Flow was achieved primarily due to an Operating netback, net of derivatives of \$50.60 per boe.

In the second quarter of 2022, the Company invested \$5.5 million in capital expenditures, made \$12.2 million in principal repayments on the Senior Term Loan resulting in net debt to \$58.2 million and achieved \$14.5 million in Adjusted Funds Flow primarily due to an Operating netback, net of derivatives of \$29.91 per boe.

In the first quarter of 2022, the Company invested \$10.5 million in capital expenditures, achieved \$13.4 million in Adjusted Funds Flow primarily due to an Operating netback, net of derivatives of \$26.38 per boe, made \$3.6 million in principal repayments on the Senior Term Loan and retired its Term Notes for \$32.1 million with an expansion of the Senior Term Loan of \$38.0 million. The Company completed an equity financing for gross proceeds of \$20.6 million and closed the Plato Acquisition for \$7.6 million, after final closing adjustments.

## STANDARDS ISSUED BUT NOT YET EFFECTIVE

In June 2023, the International Sustainability Standards Board ("ISSB") issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* which are effective for annual reporting periods beginning on or after January 1, 2024. These standards provide for transition relief in IFRS S1 that allow reporting entity to report on only climate-related risks and opportunities in the first year of reporting under the sustainability standards.

The Canadian Securities Administrators ("CSA") are responsible for determining the reporting requirements for public companies in Canada and are responsible for decisions related to the adoption of the sustainability disclosure standard, including the effective annual reporting dates. The CSA issued proposed National Instrument NI-51-107 – *Disclosure of Climate-related Matters in October 2021*. The CSA intends to consider the ISSB standards in addition to development in United States reporting requirements in its decision relating to development of climate-related disclosure requirements for Canadian reporting issuers. The CSA will involve the Canadian Sustainability Standards Board ("CSSB") for a combined review of the suitability of the adopting the ISSB standards in Canada. There is no requirement for public companies in Canada to adopt the ISSB standards until the CSA and CSSB have issued a decision on reporting requirements in Canada. While we are actively reviewing the ISSB standards we have not yet determined the impact on future financial statements, nor have we quantified the costs to comply with such standards.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

In compliance with the Canadian Securities Administrators' Regulation the Company has filed Form 52-109F2 certificates (the "certificates") signed by the Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"). As a result of becoming a non-venture issuer during Q2 2023 and in contrast to the usual certificate required for non-venture issuers under National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the certificates signed by the Certifying Officers do not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the Certifying Officers are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Certifying Officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they make in the certificate. Investors should be aware that inherent limitations on the ability of Certifying Officers of an issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 in the first financial period following the Company becoming a non-venture issuer in the circumstances described in section 5.5 of NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## USE OF ESTIMATES

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made relate to, but are not limited to, the following:



- The recoverability of accounts receivable and due from related parties which is included in the consolidated statement of financial position;
- The carrying value of the investment in exploration and evaluation costs and the recoverability of the carrying value which are included in the consolidated statement of financial position;
- The determination of the fair value of stock options, RSUs, PSUs, or warrants using stock pricing models requires the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants;
- Fair values of petroleum and natural gas properties, depletion and depreciation expense and amounts used in impairment calculations are based on estimates of proved and probable oil and gas reserves are based upon a number of significant assumptions, such as forecasted production volumes, forecasted oil and gas commodity prices, forecasted operating costs, forecasted royalty costs and forecasted future development costs. By their nature, estimates of proved and probable oil and gas reserves and the related future cash flows are subject to measurement uncertainty, and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material;
- Amounts recorded for asset retirement obligation liabilities including estimates around timing and amount of expenditures required to settle liabilities and the credit-adjusted risk free discount rate used;
- In the determination of fair value for convertible notes, the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its convertible debenture modifications, where available, the Company seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a company in the industry;
- Financial derivative commodity contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include Black-Scholes option valuation model and forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties, forecast benchmark commodity prices, and foreign exchange; and
- The determination of the estimated acquisition-date fair value of oil and gas properties involves significant estimates, including proved and probable oil and gas reserves and discount rates. The estimate of proved and probable reserves includes significant assumptions related to forecasted oil and gas commodity prices, forecasted production volumes, forecasted operating costs, forecasted royalty costs and forecasted future development costs. Changes in the assumptions or estimates used in determining the estimated acquisition date fair value of the acquired assets and liabilities could impact the allocation of the purchase price between assets and liabilities recorded on the statement of financial position and revenue and expenses recorded on the statement of comprehensive income (loss).

## **NON-GAAP AND OTHER FINANCIAL MEASURES**

Throughout this MD&A and in other materials disclosed by the Company, Saturn employs certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Saturn's performance.

### **Non-GAAP Financial Measures and Ratios**

NI 52-112 defines a non-GAAP financial measure as: (i) depicts the historical or expected future financial performance, financial position or cash flow of an entity, (ii) with respect to its composition, excludes an amount that is included in, or includes an amount that is excluded from, the composition of the most directly comparable financial measure disclosed in the primary financial statements of the entity, (iii) is not disclosed in the financial statements of the entity, and (iv) not a ratio, fraction, percentage or similar representation. NI 52-112 defines a non-GAAP ratio as: (i) is in the form of a ratio, fraction, percentage or similar representation, (ii) has a non-GAAP financial measure as one or more of its components, and (iii) is not disclosed in the financial statements of the entity. The Company has presented the following non-GAAP financial measures and ratios within this MD&A.

## Capital expenditures

Saturn uses capital expenditures to monitor its capital investments relative to those budgeted by the Company on an annual basis. Saturn's capital budget excludes acquisition and disposition activities as well as the accounting impact of any accrual changes or payments under certain lease arrangements. The most directly comparable GAAP measure for capital expenditures is cash flow used in investing activities. The following table reconciles capital expenditures and capital expenditures, net acquisitions and dispositions ("A&D") to the nearest GAAP measure, cashflow used in investing activities.

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Cash flow used in investing activities	23,818	21,957	520,498	36,489
Change in non-cash working capital	(8,534)	(16,077)	(15,708)	(12,559)
Capital expenditures, net A&D	15,284	5,880	504,790	23,930
Acquisitions, net of cash acquired	(1,439)	90	(466,662)	(7,493)
Capital expenditures	13,845	5,970	38,128	16,437

## Gross petroleum and natural gas sales

Gross petroleum and natural gas sales is calculated by adding oil, natural gas and NGLs revenue, before deducting certain gas processing expenses in arriving at Petroleum and natural gas revenue as required under IFRS-15. These processing expenses associated with the processing of natural gas and NGLs revenue are a result of the Company transferring custody of the product at the terminal inlet, and therefore receiving net prices. This metric is used by management to quantify and analyze the realized price received before required processing deductions, against benchmark prices. The calculation of the Company's gross petroleum and natural gas sales is shown within the petroleum and natural gas sales section within this MD&A.

## Net operating expenses

Net operating expense is calculated by deducting processing income primarily generated by processing third party production at processing facilities where the Company has an ownership interest, from operating expenses presented on the Statement of income (loss). Where the Company has excess capacity at one of its facilities, it will process third-party volumes to reduce the cost of ownership in the facility. The Company's primary business activities are not that of a midstream entity whose activities are focused on earning processing and other infrastructure-based revenues, and as such third-party processing revenue is netted against operating expenses in the MD&A. This metric is used by management to evaluate the Company's net operating expenses on a unit of production basis. Net operating expense per boe is a non-GAAP financial ratio and is calculated as net operating expense divided by total barrels of oil equivalent produced over a specific period of time. The calculation of the Company's net operating expenses is shown within the net operating expenses section within this MD&A.

## Operating netback and Operating netback, net of derivatives

The Company's operating netback is determined by deducting royalties, net operating expenses and transportation expenses from petroleum and natural gas sales. The Company's operating netback, net of derivatives is calculated by adding or deducting realized financial derivative commodity contract gains or losses from the operating netback. The Company's operating netback and operating netback, net of derivatives are used in operational and capital allocation decisions. Presenting operating netback and operating netback, net of derivatives on a per boe basis is a non-GAAP financial ratio and allows management to better analyze performance against prior periods on a per unit of production basis. The calculation of the Company's operating netbacks and operating netback, net of derivatives are summarized as follows.

(\$000s)	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Petroleum and natural gas sales	176,034	82,230	307,441	150,671
Royalties	(16,449)	(12,741)	(31,395)	(23,938)
Net operating expenses	(52,760)	(18,045)	(86,477)	(36,496)
Transportation expenses	(3,369)	(646)	(4,978)	(1,013)
Operating netback	103,456	50,798	184,591	89,224
Realized loss on financial derivatives	(4,425)	(30,859)	(11,700)	(51,482)
Operating netback, net of derivatives	99,031	19,939	172,891	37,742
(\$ per boe amounts)				
Petroleum and natural gas sales	74.43	123.39	77.53	112.33
Royalties	(6.96)	(19.12)	(7.92)	(17.85)
Net operating expenses	(22.31)	(27.08)	(21.81)	(27.21)
Transportation expenses	(1.42)	(0.97)	(1.26)	(0.76)
Operating netback	43.74	76.22	46.54	66.51
Realized loss on financial derivatives	(1.87)	(46.31)	(2.95)	(38.38)
Operating netback, net of derivatives	41.87	29.91	43.59	28.13

### Capital Management Measures

NI 52-112 defines a capital management measure as a financial measure that: (i) is intended to enable an individual to evaluate an entity's objectives, policies and processes for managing the entity's capital; (ii) is not a component of a line item disclosed in the primary financial statements of the entity; (iii) is disclosed in the notes to the financial statements of the entity; and (iv) is not disclosed in the primary financial statements of the entity. Please refer to note 13 "Capital Management" in Saturn's financial statements for additional disclosure on: adjusted working capital, net debt, adjusted EBITDA, adjusted funds flow, free funds flow, annualized quarterly adjusted funds flow and net debt to annualized quarterly adjusted funds flow each of which are capital management measures used by the Company in this MD&A.

### Supplementary Financial Measures

NI 52-112 defines a supplementary financial measure as a financial measure that: (i) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of an entity; (ii) is not disclosed in the financial statements of the entity; (iii) is not a non-GAAP financial measure; and (iv) is not a non-GAAP ratio. The supplementary financial measures used in this MD&A are either a per unit disclosure of a corresponding GAAP measure, or a component of a corresponding GAAP measure, presented in the financial statements. Supplementary financial measures that are disclosed on a per unit basis are calculated by dividing the aggregate GAAP measure (or component thereof) by the applicable unit for the period. Supplementary financial measures that are disclosed on a component basis of a corresponding GAAP measure are a granular representation of a financial statement line item and are determined in accordance with GAAP.

### BOE PRESENTATION

Boe means barrel of oil equivalent. All boe conversions in this MD&A are derived by converting gas to oil at the ratio of six thousand cubic feet ("Mcf") of natural gas to one barrel ("Bbl") of oil. Boe may be misleading, particularly if used in isolation. A Boe conversion rate of 1 Bbl : 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio of oil compared to natural gas based on currently prevailing prices is significantly different than the energy equivalency ratio of 1 Bbl : 6 Mcf, utilizing a conversion ratio of 1 Bbl : 6 Mcf may be misleading as an indication of value.

### MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary in the determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

## DIRECTORS AND EXECUTIVE OFFICERS

As of the date of this report the Company had the following directors and executive officers:

John Jeffrey	Chief Executive Officer and Director
Scott Sanborn	Chief Financial Officer
Justin Kaufmann	Chief Development Officer
Grant MacKenzie	Chief Legal Officer and Director
Andrew Claugus	Director
Thomas Gutschlag	Director
Ivan Bergerman	Director
Jim Payne	Director
Christopher Ryan	Director
S. Janet Yang	Director

## ADVISORIES AND FORWARD-LOOKING INFORMATION

Certain information in this MD&A, including all statements that are not historical facts, constitutes forward-looking information within the meaning of applicable Canadian securities laws. Such forward-looking information may include, but is not limited to, information which reflect management's expectations regarding the Company's future growth, the effects of the Company's acquisitions on the Company's strategy, land holdings and profitability, including the Ridgeback and Viking Acquisitions, results of operations (including, without limitation, future production and capital expenditures), performance (both operational and financial) and business prospects (including the timing and development of new reserves and the success of exploration activities) and opportunities. Often, this information includes words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved.

In making and providing the forward-looking information included in this MD&A the Company's assumptions may include among other things: (i) that there are no material delays in the optimization of operations at the properties; (ii) assumptions about operating costs and expenditures; (iii) assumptions about future production recovery and cash flows; (iv) that there is no unanticipated fluctuation in foreign exchange rates; (v) the realization of anticipated benefits of acquisitions, and (vi) that there is no material deterioration in general economic conditions. Although management believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. By its nature, forward-looking information is based on assumptions and involves known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements, or results, to be materially different from future results, performance or achievements expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include among other things the following: (i) the risk that additional financing will not be obtained as and when required; (ii) material increases in operating costs; (iii) adverse fluctuations in foreign exchange rates; and (iv) environmental risks and changes in environmental legislation.

This MD&A (See "Risks and Uncertainties") contains information on risks, uncertainties and other factors relating to the forward-looking information. Although the Company has attempted to identify factors that would cause actual actions, events or results to differ materially from those disclosed in the forward-looking information, there may be other factors that cause actual results, performances, achievements or events not to be anticipated, estimated or intended. Also, many of the factors are beyond the Company's control. Accordingly, readers should not place undue reliance on forward-looking information. The Company undertakes no obligation to reissue or update forward looking information as a result of new information or events after the date of this MD&A except as may be required by law. All forward-looking information disclosed in this document is qualified by this cautionary statement.