

SATURN OIL & GAS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(unaudited)

| As at (\$000s) | June 30, 2023 | December 31, 2022 |
|---|------------------|-------------------|
| ASSETS | | |
| Cash | 40,670 | 10,256 |
| Accounts receivable | 69,684 | 40,920 |
| Deposits and prepaid expenses | 15,049 | 8,485 |
| Financial derivatives (note 14) | 2,513 | 1,974 |
| Total current assets | 127,916 | 61,635 |
| Exploration and evaluation assets | 5,386 | 5,633 |
| Property, plant and equipment (note 4) | 1,180,005 | 486,331 |
| Right-of-use assets (note 5) | 8,291 | 3,390 |
| Deposit | - | 21,101 |
| Deferred tax asset | 6,613 | 4,217 |
| Financial derivatives (note 14) | 4,605 | 600 |
| Total assets | 1,332,816 | 582,907 |
| LIABILITIES | | |
| Accounts payable | 83,142 | 56,533 |
| Senior term loan (note 8) | 280,250 | 119,934 |
| Lease liabilities (note 6) | 3,954 | 1,358 |
| Decommissioning obligations (note 7) | 8,581 | - |
| Financial derivatives (note 14) | 6,903 | 46,372 |
| Total current liabilities | 382,830 | 224,197 |
| Senior term loan (note 8) | 269,775 | 120,909 |
| Promissory note | - | 828 |
| Convertible notes | 2,421 | 2,361 |
| Decommissioning obligations (note 7) | 92,762 | 52,626 |
| Lease liabilities (note 6) | 3,988 | 1,805 |
| Warrant liability | - | 2,020 |
| Financial derivatives (note 14) | - | 39,645 |
| Total liabilities | 751,776 | 444,391 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (note 9) | 291,030 | 122,017 |
| Contributed surplus (note 9) | 33,391 | 14,740 |
| Warrants (note 9) | 14,679 | 30,142 |
| Retained earnings (deficit) | 241,940 | (28,383) |
| Total shareholders' equity | 581,040 | 138,516 |
| Total liabilities and shareholders' equity | 1,332,816 | 582,907 |

Commitments (note 15)

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)

| (\$000s, except per share amounts) | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| REVENUE | | | | |
| Petroleum and natural gas sales (note 10) | 176,034 | 82,230 | 307,441 | 150,671 |
| Processing income (note 10) | 2,685 | 727 | 4,646 | 1,400 |
| Royalties | (16,449) | (12,741) | (31,395) | (23,938) |
| | 162,270 | 70,216 | 280,692 | 128,133 |
| Realized loss on derivatives (note 14) | (4,425) | (30,859) | (11,700) | (51,482) |
| Unrealized gain (loss) on derivatives (note 14) | 51,555 | 13,651 | 84,039 | (90,145) |
| Other income (note 7) | - | 1,912 | 246 | 4,082 |
| | 209,400 | 54,920 | 353,277 | (9,412) |
| EXPENSES | | | | |
| Operating | 55,445 | 18,772 | 91,123 | 37,896 |
| Transportation | 3,369 | 646 | 4,978 | 1,013 |
| General and administrative | 6,144 | 1,485 | 10,059 | 2,980 |
| Depletion depreciation and amortization (notes 4,5) | 40,117 | 6,007 | 65,918 | 13,882 |
| Share based payments (note 9) | 2,011 | 170 | 3,051 | 357 |
| Financing (note 11) | 31,490 | 6,481 | 50,889 | 12,762 |
| Foreign exchange loss | 34 | 539 | 132 | 623 |
| Loss on debt extinguishment (note 8) | - | - | 8,265 | 6,883 |
| Gain on warrant liability | - | (942) | (2,020) | (2,414) |
| Transaction costs (note 3) | 909 | - | 4,657 | - |
| Gain on acquisitions (note 3) | 1,439 | (70) | (183,851) | (5,723) |
| | 140,958 | 33,088 | 53,201 | 68,259 |
| Income (loss) before income taxes | 68,442 | 21,832 | 300,076 | (77,671) |
| Deferred income tax expense (recovery) | 17,169 | (23) | 29,753 | (1,908) |
| Net income (loss) and comprehensive income (loss) | 51,273 | 21,855 | 270,323 | (75,763) |
| Net income (loss) per share (note 9) | | | | |
| Basic | 0.37 | 0.68 | 2.39 | (2.56) |
| Diluted | 0.36 | 0.66 | 2.34 | (2.56) |

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 | Retained earnings (deficit) | Total |
|---|---------------------|------------------|------------------------|---------------|-----------------------------------|-----------------|
| Balance, December 31, 2021 | 25,165 | 45,609 | 12,922 | 14,361 | (103,198) | (30,306) |
| Equity financings | 6,871 | 20,613 | - | - | - | 20,613 |
| Allocation to warrants | - | (7,200) | - | 7,200 | - | - |
| Cash share issue costs | - | (1,668) | - | - | - | (1,668) |
| Non-cash share issue costs | - | (1,352) | 1,352 | - | - | - |
| Share based payments | - | - | 464 | - | - | 464 |
| Broker option exercise | 325 | 1,108 | (1,326) | 999 | - | 781 |
| 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) |
| Balance, December 31, 2022 | 59,892 | 122,017 | 14,740 | 30,142 | (28,383) | 138,516 |
| Equity financings (note 9) | 78,648 | 174,486 | - | - | - | 174,486 |
| Share issue costs, net of tax recovery (note 9) | - | (5,632) | - | - | - | (5,632) |
| Share based payments | - | - | 3,378 | - | - | 3,378 |
| Share based award exercises | 94 | 159 | (190) | - | - | (31) |
| Warrant expiry | - | - | 15,463 | (15,463) | - | - |
| Net income for the period | - | - | - | - | 270,323 | 270,323 |
| Balance, June 30, 2023 | 138,634 | 291,030 | 33,391 | 14,679 | 241,940 | 581,040 |

See accompanying notes to the condensed consolidated interim financial statements

SATURN OIL & GAS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASHFLOWS

(unaudited)

| (\$000s) | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | 51,273 | 21,855 | 270,323 | (75,763) |
| Items not affecting cash: | | | | |
| Depletion, depreciation and amortization (notes 4,5) | 40,117 | 6,007 | 65,918 | 13,882 |
| Share based payments (note 9) | 2,011 | 170 | 3,051 | 357 |
| Deferred income tax expense (recovery) | 17,169 | (23) | 29,753 | (1,908) |
| Unrealized (gain) loss on financial derivatives (note 14) | (51,555) | (13,651) | (84,039) | 90,145 |
| Gain on warrant liability | - | (942) | (2,020) | (2,414) |
| Unrealized foreign exchange loss | - | 1 | - | 43 |
| Gain on acquisition (note 3) | 1,439 | (70) | (183,851) | (5,723) |
| Loss on debt extinguishment (note 8) | - | - | 8,265 | 6,883 |
| Non-cash financing expenses (note 11) | 5,591 | 2,994 | 9,584 | 6,467 |
| Other income (note 7) | - | (1,878) | (226) | (4,035) |
| Decommissioning expenditures (note 7) | (1,636) | (44) | (1,895) | (429) |
| Change in non-cash working capital (note 12) | 29,823 | 5,980 | 23,280 | 3,236 |
| Cash from operating activities | 94,232 | 20,399 | 138,143 | 30,741 |
| FINANCING ACTIVITIES | | | | |
| Proceeds from Senior Term Loan, net of discount (note 8) | - | - | 365,625 | 36,718 |
| Debt issue costs (note 8) | - | - | (4,222) | (286) |
| Repayment of Senior Term Loan (note 8) | (50,723) | (8,610) | (63,009) | (12,237) |
| Proceeds from share issuance (note 9) | - | - | 125,001 | 20,613 |
| Share issue costs (note 9) | 6 | - | (8,282) | (1,668) |
| Repayment of notes | (836) | - | (836) | (32,081) |
| Share based award exercise (note 9) | - | - | (31) | 781 |
| Lease payments (note 6) | (1,274) | (406) | (2,044) | (812) |
| Change in non-cash working capital (note 12) | (1,985) | 35 | 567 | - |
| Cash from (used in) financing activities | (54,812) | (8,981) | 412,769 | 11,028 |
| INVESTING ACTIVITIES | | | | |
| Acquisitions, net of cash acquired (note 3) | (1,439) | 90 | (466,662) | (7,493) |
| Property, plant and equipment (note 4) | (13,308) | (5,544) | (37,519) | (15,364) |
| Exploration and evaluation | (537) | (426) | (609) | (1,073) |
| Change in non-cash working capital (note 12) | (8,534) | (16,077) | (15,708) | (12,559) |
| Cash used in investing activities | (23,818) | (21,957) | (520,498) | (36,489) |
| Change in cash, during the period | 15,602 | (10,539) | 30,414 | 5,280 |
| Cash, beginning of period | 25,068 | 18,234 | 10,256 | 2,415 |
| Cash, end of period | 40,670 | 7,695 | 40,670 | 7,695 |

Cash interest paid (note 11)

See accompanying notes to the condensed consolidated interim financial statements

SATURN OIL & GAS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2023 and 2022

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 Western Canada. The Company’s current focus is to advance the exploration and development of its oil and gas properties in Alberta and Saskatchewan. The common shares and certain warrants of the Company are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbols “SOIL”, “SOIL.WT.A” and “SOIL.WT.B”.

The Company’s corporate headquarters are at 2800, 525 - 8th Ave SW, Calgary, Alberta, T2P 1G1, 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, 2022. 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, 2022.

These unaudited condensed consolidated interim financial statements were approved and authorized for issue by the Company’s Board of Directors on August 11, 2023.

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, 2022 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, 2023, relative to those described in the most recent annual consolidated financial statements as at and for the year ended December 31, 2022.

3. ACQUISITION

Ridgeback Resources acquisition

On February 28, 2023, the Company completed a 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 was completed for total consideration of \$525.9 million, comprised of \$476.4 million in cash, and 19,406,167 common shares of the Company, based on a closing day price of \$2.55 per common share. 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. There were \$4.7 million of transaction costs incurred by the Company and expensed through earnings.

The determination of the purchase price, based on management's estimate of fair values, 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) |
| Total | 525,925 |
| Consideration: | |
| Cash | 476,439 |
| Common shares | 49,486 |
| Total | 525,925 |

Results from operations for Ridgeback are included in the Company's interim condensed financial statements from the closing date of the transaction on a prospective basis. The estimated acquisition date fair value attributed to PP&E was derived from the estimate of proved and probable oil and gas reserves and the related cash flows prepared by independent third-party reserve evaluators and internally updated to reflect activity up to February 28, 2023. The estimated proved and probable oil and gas reserves and the 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 area at that 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 \$116.9 million and net income of \$15.6 million are included in the statement of income (loss) and comprehensive income (loss) for the Ridgeback Acquisition since the closing date of February 28, 2023.

Had the Ridgeback Acquisition had occurred on January 1, 2023, the incremental petroleum and natural gas sales and net income for the 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 |

4. PROPERTY, PLANT AND EQUIPMENT

| Cost (\$000s) | Oil and gas properties | Other assets | Total |
|---|-------------------------------|---------------------|------------------|
| As at December 31, 2021 | 191,447 | 342 | 191,789 |
| Additions | 86,615 | 797 | 87,412 |
| Acquisition | 276,195 | - | 276,195 |
| Change in decommissioning obligations | 4,218 | - | 4,218 |
| As at December 31, 2022 | 558,475 | 1,139 | 559,614 |
| Additions | 37,612 | 235 | 37,847 |
| Acquisition (note 3) | 718,829 | - | 718,829 |
| Change in decommissioning obligations | 683 | - | 683 |
| As at June 30, 2023 | 1,315,599 | 1,374 | 1,316,973 |
| Accumulated depletion, depreciation and amortization | | | |
| As at December 31, 2021 | 28,715 | 165 | 28,880 |
| Depletion, depreciation and amortization | 44,080 | 323 | 44,403 |
| As at December 31, 2022 | 72,795 | 488 | 73,283 |
| Depletion, depreciation and amortization | 63,424 | 261 | 63,685 |
| As at June 30, 2023 | 136,219 | 749 | 136,968 |
| Net book value | | | |
| As at December 31, 2022 | 485,680 | 651 | 486,331 |
| As at June 30, 2023 | 1,179,380 | 625 | 1,180,005 |

As at June 30, 2023, the calculation of depletion includes estimated forecasted future development costs relating to the development of proved and probable oil and gas reserves of \$1,245.8 million (December 31, 2022 - \$473.8 million). The Company capitalized \$2.3 million of general and administrative costs for the period ended June 30, 2023 (December 31, 2022 - \$2.2 million) and capitalized \$0.3 million of share-based compensation expense for the period ended June 30, 2023 (December 31, 2022 - \$0.2 million).

At June 30, 2023 and December 31 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, 2021 | 3,354 | 1,349 | 4,703 |
| Additions | 290 | 246 | 536 |
| As at December 31, 2022 | 3,644 | 1,595 | 5,239 |
| Additions | 1,573 | 245 | 1,818 |
| Acquired (note 3) | 3,308 | 1,156 | 4,464 |
| As at June 30, 2023 | 8,525 | 2,996 | 11,521 |
| Accumulated depreciation | | | |
| As at December 31, 2021 | 691 | 236 | 927 |
| Depreciation | 584 | 338 | 922 |
| As at December 31, 2022 | 1,275 | 574 | 1,849 |
| Depreciation | 871 | 510 | 1,381 |
| As at June 30, 2023 | 2,146 | 1,084 | 3,230 |
| Net book value | | | |
| As at December 31, 2022 | 2,369 | 1,021 | 3,390 |
| As at June 30, 2023 | 6,379 | 1,912 | 8,291 |

6. LEASES

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

| (\$000s) | June 30, 2023 | December 31, 2022 |
|-------------------------------|---------------|-------------------|
| Balance, beginning of period | 3,163 | 3,747 |
| Acquired (note 3) | 4,464 | - |
| Additions | 1,818 | 536 |
| Lease payment | (2,044) | (1,654) |
| Interest expense | 541 | 534 |
| Carrying value, end of period | 7,942 | 3,163 |
| Current | 3,954 | 1,358 |
| Long-term | 3,988 | 1,805 |

As at June 30, 2023, the estimated undiscounted cash flows required to settle the Company's lease liability was \$11.9 million (December 31, 2022 - \$6.5 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 \$408.2 million (December 31, 2022 - \$239.8 million) which has been inflated at 2.0% (December 31, 2022 - 2.0%) and discounted using the credit adjusted risk-free rate of 14.5% (December 31, 2022 - 14.5%) with an estimated timeline to abandoned between 1 and 55 years.

| (\$000s) | June 30, 2023 | December 31, 2022 |
|-------------------------------|---------------|-------------------|
| Balance, beginning of period | 52,626 | 47,296 |
| Acquired (note 3) | 43,706 | 7,966 |
| Obligations incurred (note 4) | 12 | 569 |
| Change in estimates (note 4) | 671 | 3,649 |
| ASCP settlements | (226) | (13,639) |
| Cash settlements | (1,895) | (582) |
| Accretion | 6,449 | 7,367 |
| Balance, end of period | 101,343 | 52,626 |
| Current | 8,581 | - |
| Long-term | 92,762 | 52,626 |

On January 1, 2023, the new Inactive Liability Reduction Program came into effect in Saskatchewan which mandates minimum spend targets on the Company's decommissioning obligations. These amounts have been moved to current decommissioning obligations, net of current year spend. The Alberta assets acquired as part of the Ridgeback Acquisition are subject to a similar program.

During the period ended June 30, 2023, \$0.2 million (December 31, 2022 - \$13.6 million) was granted to Saturn from the Government of Saskatchewan through the Accelerated Site Closure Program ("ASCP") and has been recorded as other income in the statement of income.

8. SENIOR TERM LOAN

On February 28, 2023, the Company entered into an 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 the scheduled 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 at 11.5% per annum plus the applicable periodic Canadian dollar bankers' acceptance rate at a minimum rate of 1%. The amended Senior Term Loan has a stated maturity date of February 28, 2026.

| Principal (\$000s) | June 30, 2023 | December 31, 2022 |
|--------------------------------------|----------------------|--------------------------|
| Balance, beginning of period | 245,479 | 68,860 |
| Additions | 375,000 | 238,000 |
| Repayments | (63,009) | (61,381) |
| Balance, end of period | 557,470 | 245,479 |
| Debt issue costs and discount | | |
| Balance, beginning of period | (4,636) | (3,805) |
| Additions, original issue discount | (9,375) | (8,032) |
| Additions, debt issue costs | (4,222) | (1,080) |
| Acceleration on extinguishment | 8,265 | 4,284 |
| Amortization | 2,523 | 3,997 |
| Balance, end of period | (7,445) | (4,636) |
| Carrying value | 550,025 | 240,843 |
| Current | 280,250 | 119,934 |
| Long-term | 269,775 | 120,909 |

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, 2023, Saturn was in compliance with all covenants pertaining to the Senior Term Loan. The following table summarizes the key financial covenants set forth in the credit agreement:

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

(1) The ratio of (a) the PV10 of Saturn's proved developed producing ("PDP") reserves net of 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 adjusted EBITDA (note 13).

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 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) |

Unsecured letter of credit facility

The Company has a \$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).

9. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of common shares with no par value. As at June 30, 2023 there are 138,633,786 common shares outstanding.

Issued and outstanding

| (000s) | June 30, 2023 | | December 31, 2022 | |
|---|----------------|----------------|-------------------|----------|
| | Shares | Amount | Shares | Amount |
| Balance, beginning of period | 59,892 | 122,017 | 25,165 | 45,609 |
| Common shares issued for cash proceeds | 59,242 | 125,000 | 34,199 | 95,763 |
| Common shares issued as consideration | 19,406 | 49,486 | - | - |
| Cash share issue costs, net of tax recovery | - | (5,632) | - | (3,638) |
| Non-cash share issue costs | - | - | - | (2,890) |
| Stock option exercise | 86 | 124 | 150 | 502 |
| Restricted share unit exercise | 8 | 35 | - | - |
| Broker option exercise | - | - | 378 | 1,350 |
| Allocation to warrants | - | - | - | (14,679) |
| Balance, end of period | 138,634 | 291,030 | 59,892 | 122,017 |

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 and incurred associated share issue costs of \$8.3 million.

As partial consideration for the Ridgeback Acquisition (note 3), the Company issued 19,406,167 common shares to the previous shareholders of Ridgeback.

Warrants

| (000s, except per warrant price) | | June 30, 2023 Weighted average exercise price | | December 31, 2022 Weighted average exercise price |
|----------------------------------|-----------------|---|-----------------|---|
| | Warrants | | Warrants | |
| Balance, beginning of period | 36,520 | 3.35 | 15,607 | 3.20 |
| Expired | (15,985) | 3.20 | - | - |
| Issued | - | - | 20,913 | 3.46 |
| Balance, end of period | 20,535 | 3.47 | 36,520 | 3.35 |

As at June 30, 2023, the following TSX listed share purchase warrants are outstanding and exercisable:

| (000s, except per warrant price) | | | | Warrants outstanding and exercisable |
|----------------------------------|--|-------------|-----------------------|--|
| Expiry date | | Type | Exercise price | |
| July 7, 2023 | | SOIL.WT.B | 3.20 | 13,664 |
| March 10, 2025 | | SOIL.WT.A | 4.00 | 6,871 |
| | | | | 20,535 |

Subsequent to period end, the 13,663,716 listed warrants trading on the TSX under the symbol SOIL.WT.B expired unexercised effective July 7, 2023.

Broker options

| (000s, except per broker option price) | | June 30, 2023 Weighted average exercise price | | December 31, 2022 Weighted average exercise price |
|--|-----------------------|---|-----------------------|---|
| | Broker options | | Broker options | |
| Balance, beginning of period | 2,532 | 2.71 | 891 | 2.40 |
| Expired | (513) | 2.40 | - | - |
| Issued | - | - | 2,019 | 2.80 |
| Exercised | - | - | (378) | 2.40 |
| Balance, end of period | 2,019 | 2.80 | 2,532 | 2.71 |

As at June 30, 2023, the following broker options are outstanding and exercisable:

| (000s, except per broker option price) | | | Broker options outstanding and exercisable |
|--|--|-----------------------|--|
| Expiry date | | Exercise price | |
| July 7, 2023 ⁽¹⁾ | | 2.75 | 1,620 |
| March 10, 2024 ⁽²⁾ | | 3.00 | 399 |
| | | | 2,019 |

⁽¹⁾ 1,619,962 broker options outstanding, each exercisable at \$2.75 into one common share and one-half of one warrant. Each whole warrant exercisable at \$3.20 per warrant expiring July 7, 2023.

⁽²⁾ 399,165 broker options outstanding, each exercisable at \$3.00 into one common share and one warrant. Each whole warrant exercisable at \$4.00 per warrant expiring March 10, 2025.

Subsequent to period end, the 1,619,962 broker options expired unexercised effective July 7, 2023.

Stock options

The Company has a Long Term Incentive Plan (“LTIP”) under which it is authorized to grant stock options to directors, officers, employees and consultants enabling them to acquire common shares of the Company upon exercise. The stock options are generally granted for maximum term of five years, and vest in thirds on each of the first, second and third anniversary after the grant date. Vesting conditions are determined by the Board of Directors.

| (000s, except per option price) | June 30, 2023 | | December 31, 2022 | |
|---------------------------------|---------------|---------------------------------|-------------------|---------------------------------|
| | Stock options | Weighted average exercise price | Stock options | Weighted average exercise price |
| Balance, beginning of period | 1,687 | 2.52 | 1,982 | 2.49 |
| Exercised | (280) | 0.19 | (150) | 1.80 |
| Expired | (138) | 2.74 | - | - |
| Forfeited/cancelled | (50) | 3.10 | (145) | 2.81 |
| Balance, end of period | 1,219 | 2.68 | 1,687 | 2.52 |

As at June 30, 2023, the following stock options were outstanding and exercisable:

| (000s, except per option price and life remaining) | Stock options outstanding | | | Stock options exercisable | | |
|--|---------------------------|---------------------------------|---|---------------------------|---------------------------------|---|
| | Number outstanding | Weighted average exercise price | Weighted average life remaining (years) | Number exercisable | Weighted average exercise price | Weighted average life remaining (years) |
| 2.00 - 2.40 | 749 | 2.33 | 2.7 | 550 | 2.31 | 2.5 |
| 2.41 - 3.00 | 345 | 2.95 | 2.1 | 235 | 2.98 | 1.7 |
| 3.01 - 4.00 | 125 | 4.00 | 0.2 | 125 | 4.00 | 0.2 |
| | 1,219 | 2.68 | 2.3 | 910 | 2.71 | 2.0 |

Restricted Share Units

In accordance with the LTIP, the Company is authorized to grant Restricted Share Units (“RSUs”) to directors, officers, employees and consultants. The RSUs are granted for a term of three years and vest in thirds on each of the first, second and third anniversary after the grant date. The RSUs may be cash or equity settled upon vesting as determined by the Board of Directors. The fair value per RSU is equivalent to the market price at which the common shares of the Company traded on the day immediately preceding the grant date.

| (000s, except life remaining) | June 30, 2023 | | December 31, 2022 | |
|---|---------------|-------------------------|-------------------|---------------------------------|
| | RSUs | Weighted exercise price | RSUs | Weighted average exercise price |
| Balance, beginning of period | 45 | - | - | - |
| Issued | 2,350 | - | 63 | - |
| Exercised | (15) | - | - | - |
| Forfeited/Cancelled | (66) | - | (18) | - |
| Balance, end of period | 2,314 | - | 45 | - |
| Weighted average life remaining (years) | 2.0 | - | 2.1 | - |

Performance share units

In accordance with the LTIP, the Company is authorized to grant Performance Share Units (“PSUs”) to directors, officers, employees and consultants. The PSUs are granted for a term of one year with certain performance measures specified at the grant date and may be cash or equity settled upon vesting as determined by the Company's Board of Directors. Based upon the achievement of the performance measures, a pre-determined adjustment factor between 0.5-1.5x is applied to the PSUs eligible to vest at the end of the performance period. The fair value per PSU is equivalent to the market price at which the common shares of the Company traded on the day immediately preceding the grant date.

| (000s, except life remaining) | June 30, 2023 | | December 31, 2022 | |
|---|---------------|---------------------------------|-------------------|---------------------------------|
| | PSUs | Weighted average exercise price | PSUs | Weighted average exercise price |
| Balance, beginning of period | - | - | - | - |
| Issued | 667 | - | - | - |
| Balance, end of period | 667 | - | - | - |
| Weighted average life remaining (years) | 0.8 | - | - | - |

Performance warrants

The Company has issued performance warrants to certain officers and directors enabling them to acquire common shares of the Company upon exercise. The performance warrants will vest upon certain vesting threshold conditions, based on the 5-day volume weighted average trading price (“VWAP”) of the Company's common shares listed on the TSX. Once vested, the performance warrants may be exercised by the holder at any time from the date of vesting to the expiry date. A summary of the changes in performance warrants outstanding is as follows:

| (000s, except per performance warrant price) | June 30, 2023 | | December 31, 2022 | |
|--|----------------------|---------------------------------|----------------------|---------------------------------|
| | Performance warrants | Weighted average exercise price | Performance warrants | Weighted average exercise price |
| Balance, beginning of period | - | - | - | - |
| Issued | 7,000 | 2.50 | - | - |
| Balance, end of period | 7,000 | 2.50 | - | - |

As at June 30, 2023, the following performance warrants were outstanding:

| (000s, except per performance warrant price, years and VWAP) | Performance warrants outstanding | | | Performance warrants exercisable | | |
|--|----------------------------------|------------------------|---|----------------------------------|------------------------|---|
| | Number outstanding | Vesting threshold VWAP | Weighted average life remaining (years) | Number exercisable | Vesting threshold VWAP | Weighted average life remaining (years) |
| 2.50 | 2,333 | 4.00 | 6.8 | - | - | - |
| 2.50 | 2,333 | 6.00 | 6.8 | - | - | - |
| 2.50 | 2,334 | 8.00 | 6.8 | - | - | - |
| | 7,000 | | 6.8 | - | - | - |

The fair value of performance warrants granted was estimated using a Monte Carlo simulation with the following assumptions:

| | Vesting thresholds | | |
|-----------------------------|--------------------|--------|--------|
| | \$4.00 | \$6.00 | \$8.00 |
| Total life (years) | 7.0 | 7.0 | 7.0 |
| Expected life (years) | 1.5 | 2.5 | 3.0 |
| Risk-free interest rate (%) | 3.16 | 3.16 | 3.16 |
| Expected volatility | 60% | 60% | 60% |
| Vesting threshold VWAP | 5-day | 5-day | 5-day |
| Forfeiture rate (%) | - | - | - |
| Dividend yield (%) | - | - | - |

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, RSUs/DSUs, 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:

| (000s, except per share amounts) | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| Weighted average shares outstanding | | | | |
| Basic | 138,634 | 32,361 | 112,957 | 29,623 |
| Diluted | 141,742 | 32,992 | 116,089 | 29,623 |
| Per share income (loss) | | | | |
| Basic | 0.37 | 0.68 | 2.39 | (2.56) |
| Diluted | 0.36 | 0.66 | 2.33 | (2.56) |

10. REVENUE

| (\$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 | 7,002 | 1,254 | 11,090 | 2,231 |
| Natural gas | 5,718 | 670 | 9,180 | 1,103 |
| Petroleum and natural gas sales | 176,034 | 82,230 | 307,441 | 150,671 |
| Processing income | 2,685 | 727 | 4,646 | 1,400 |
| | 178,719 | 82,957 | 312,087 | 152,071 |

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, 2023 is \$55.6 million (December 31, 2022 – \$36.3 million) of accrued petroleum and natural gas sales related to June 30, 2023 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

| (\$000s) | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|-------|---------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest expense | 26,398 | 3,487 | 42,334 | 6,295 |
| 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 (note 6) | 312 | 135 | 541 | 280 |
| Accretion, decommissioning obligations (note 7) | 3,842 | 1,738 | 6,449 | 3,481 |
| Financing expenses | 31,490 | 6,481 | 50,889 | 12,762 |

12. SUPPLEMENTAL CASH FLOW INFORMATION

| (\$000s) | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Change in non-cash working capital: | | | | |
| Accounts receivable | 11,196 | (486) | (28,764) | (11,292) |
| Deposits and prepaid expenses | 30,740 | (12,061) | 14,537 | (13,302) |
| Accounts payable | (22,632) | 2,485 | 26,609 | 15,271 |
| Non-cash working capital deficit acquired (note 3) | - | - | (4,243) | - |
| | 19,304 | (10,062) | 8,139 | (9,323) |
| Related to: | | | | |
| Operating activities | 29,823 | 5,980 | 23,280 | 3,236 |
| Financing activities | (1,985) | 35 | 567 | - |
| Investing activities | (8,534) | (16,077) | (15,708) | (12,559) |
| Total change in non-cash working capital | 19,304 | (10,062) | 8,139 | (9,323) |

13. CAPITAL MANAGEMENT

The Company manages its capital to safeguard its ability to continue as a going concern, so that it may provide adequate returns to shareholders, benefits to other stakeholders and have sufficient funds on hand for business opportunities as they arise. The Company's capital structure may be adjusted by issuing or repurchasing equity instruments, 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. The Company uses the terms adjusted EBITDA, adjusted funds flow, free funds flow, net debt, capital expenditures and adjusted working capital as key capital management measures which are described and calculated below. These capital management measures are not standardized and therefore may not be comparable with the calculation of similar measures by other entities. There were no changes in the Company's approach to capital management during the period ended June 30, 2023.

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 or extraordinary items.

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 may vary based on the stage of the Company's assets and operating areas, and transaction costs which vary based on the Company's acquisition and disposition activity.

Free funds flow

The Company considers free funds flow to be a key capital management measure as it is used to determine the efficiency and liquidity of Saturn's business, measuring its funds available after capital investment available for debt repayment, pursue acquisitions and gauge optionality to pay dividends and/or return capital to shareholders through share repurchases. Saturn calculates Free funds flow as Adjusted funds flow in the period less expenditures on property, plant and equipment and exploration and evaluation assets, together "capital expenditures". By removing the impact of current period capital expenditures from adjusted funds flow, management monitors its free funds flow to inform its capital allocation decisions.

The following table reconciles adjusted EBITDA, adjusted funds flow and free funds flow to cash flow from operating activities:

| (\$000s) | Three months ended June 30, | | Six months ended June 30, | |
|-------------------------------------|-----------------------------|---------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| Cash flow from operating activities | 94,232 | 20,399 | 138,143 | 30,741 |
| Change in non-cash working capital | (29,823) | (5,980) | (23,280) | (3,236) |
| Decommissioning expenditures | 1,636 | 44 | 1,895 | 429 |
| Transaction costs | 909 | - | 4,657 | - |
| Net interest | 25,899 | 3,487 | 41,305 | 6,295 |
| Adjusted EBITDA | 92,853 | 17,950 | 162,720 | 34,229 |
| Net interest | (25,899) | (3,487) | (41,305) | (6,295) |
| Adjusted funds flow | 66,954 | 14,463 | 121,415 | 27,934 |
| Capital expenditures ⁽¹⁾ | (13,845) | (5,970) | (38,128) | (16,437) |
| Free funds flow | 53,109 | 8,493 | 83,287 | 11,497 |

⁽¹⁾ Calculated as expenditures on Property, plant and equipment and exploration and evaluation assets on the condensed consolidated interim statements of cash flows.

Market capitalization and net debt

Management considers net debt a key capital management measure in assessing the Company's liquidity. 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. The summary of total market capitalization, net debt, annualized quarterly adjusted funds flow and net debt to annualized quarterly adjusted funds flow is as follows:

| (\$000s) | June 30, 2023 | December 31, 2022 |
|--|---------------|-------------------|
| Total common shares outstanding (000s) | 138,634 | 59,892 |
| Share price ⁽¹⁾ | 2.19 | 2.35 |
| Total market capitalization | 303,608 | 140,746 |
| Adjusted working capital ⁽²⁾ | (42,261) | (3,128) |
| Long-term deposit | - | (21,101) |
| Senior Term Loan | 550,025 | 240,843 |
| Promissory notes | - | 828 |
| Convertible notes | 2,421 | 2,361 |
| Net debt | 510,185 | 219,803 |
| Annualized quarterly adjusted funds flow | 267,816 | 202,916 |
| Net debt to annualized quarterly adjusted funds flow | 1.9x | 1.1x |

⁽¹⁾ Represents the closing share price on the TSX 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.

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 \$116.0 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, 2023:

| Period | WTI Collars | | | | WTI Swaps | | | | WTI/MSW Differential | | | |
|---------|------------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|----------------------|--------------------------------|------------------|--------------------------------|
| | Volume bbls/d | Price ⁽¹⁾ US/bbl | Volume bbls/d | Price ⁽¹⁾ CA/bbl | Volume bbls/d | Price ⁽¹⁾ US/bbl | Volume bbls/d | Price ⁽¹⁾ CA/bbl | Volume bbls/d | Price ⁽¹⁾ US/bbl | Volume bbls/d | Price ⁽¹⁾ 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 | - | - | - | - |

(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. 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, 2023:

| (\$000s) | Gross financial derivative instruments | Amount offset | Net financial derivative instruments |
|---------------------------|--|---------------|--|
| Current asset | 34,309 | (31,796) | 2,513 |
| Long term asset | 37,313 | (32,708) | 4,605 |
| Current liability | (38,699) | 31,796 | (6,903) |
| Long term liability | (32,708) | 32,708 | - |
| Net asset position | 215 | - | 215 |

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, 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 ⁽¹⁾ | 77,523 | 45,154 | - | - | 122,677 |
| Convertible notes | - | 2,743 | - | - | 2,743 |
| Lease liabilities ⁽²⁾ | 4,852 | 5,468 | 969 | 700 | 11,989 |
| Gas processing contracts | 4,203 | 4,409 | 1,886 | 6,208 | 16,706 |
| Accounts payable | 83,142 | - | - | - | 83,142 |
| | 453,747 | 331,218 | 2,855 | 6,908 | 794,728 |

(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.

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 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 \$0.3 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 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 \$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 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.

Net debt and capital structure

Management considers net debt a key measure in assessing the company's liquidity. The Company's net debt and capital structure is as follows:

| (\$000s) | June 30, 2023 | December 31, 2022 |
|----------------------|---------------|-------------------|
| Net debt | 510,185 | 219,803 |
| Shareholders' equity | 581,040 | 138,516 |
| Total capitalization | 1,091,225 | 358,319 |

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, acquisitions or divestitures and the risk characteristics of the Company's underlying assets and operations. The capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, modifying capital spending programs and acquisition or disposal of assets, the availability of any such means being dependent upon market conditions.

15. COMMITMENTS

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 ⁽¹⁾ | 77,523 | 45,154 | - | - | 122,677 |
| Convertible notes | - | 2,743 | - | - | 2,743 |
| Lease liabilities ⁽²⁾ | 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.