SPARTAN DELTA CORP.

SPARTAN DELTA CORP.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED

DECEMBER 31, 2021 AND 2020

MANAGEMENT'S REPORT

Calgary, Alberta
March 8, 2022

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of the accompanying consolidated financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In management's opinion, the consolidated financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, have been prepared within acceptable limits of materiality, and have utilized supportable, reasonable estimates.

To ensure the integrity of our financial statements, we carefully select and train qualified personnel. We also ensure our organizational structure provides appropriate delegation of authority and division of responsibilities. Our policies and procedures are communicated throughout the organization including a written ethics and integrity policy that applies to all employees including the Chief Executive Officer and Chief Financial Officer.

The Board of Directors approves the consolidated financial statements. Their financial statement-related responsibilities are fulfilled primarily through the Audit Committee. The Audit Committee is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting and control issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance that all assets are safeguarded, transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable, and timely information. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of the internal control over financial reporting for Spartan Delta Corp. The assessment was based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company's internal controls over financial reporting are effective as of December 31, 2021.

[signed] "Fotis Kalantzis"	*[signed] "Geri Greenall"*
President and Chief Executive Officer	Chief Financial Officer

Independent auditor's report

To the Shareholders of Spartan Delta Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Spartan Delta Corp. and its subsidiaries (together, the "Company") as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements net income and comprehensive income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of crude oil and natural gas reserves on net development and production ("D&P") assets *Refer to note 2 – Basis of preparation, note 3 – Significant accounting policies and note 8 – Property, plant and equipment to the consolidated financial statements.* The Company had $1,327 million of net D&P assets as at December 31, 2021. Depletion, depreciation and impairment ("DD&I") expense for the D&P assets was $94 million for the year then ended. D&P assets are depleted using the unit-of-production method based on total production as a percentage of proved plus probable crude oil and natural gas reserves. The significant assumptions used by management to determine the proved plus probable reserves of the Company's D&P assets include the production forecasts, future prices and the timing and amount of future expenditures. The proved plus probable crude oil and natural gas reserves are prepared by independent qualified reserves evaluators (management's experts). We determined that this is a key audit matter due to the significant judgment by management, including the use of management's experts, when developing the estimates of proved plus probable crude oil and natural gas reserves and a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions.	Our approach to addressing the matter included the following procedures, among others: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved plus probable crude oil and natural gas reserves used to determine DD&I expense. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. Evaluating the assumptions used by management's experts in developing the underlying estimates also included assessing whether: – The production forecasts as well as the timing and amount of future expenditures were reasonable by considering the current and past performance of the D&P assets, and whether these assumptions were consistent with evidence obtained in other areas of the audit, as applicable. – Future prices were reasonable by comparing them to other reputable third party industry forecasts. • Recalculated the unit-of-production rates used to calculate DD&I expense for the D&P assets.

Valuation of property, plant and equipment ("PP&E") assets acquired in the Inception and Velvet business combinations

Refer to note 2 – Basis of preparation, note 3 – Significant accounting policies and note 6 – Acquisitions to the consolidated financial statements.

On March 18, 2021, the Company acquired all of the outstanding shares of Inception Exploration Ltd., and on August 31, 2021, the Company acquired all of the outstanding shares of Velvet Energy Ltd. for total consideration of $117.4 million and $369.1 million, respectively. These transactions were accounted for under the acquisition method, which requires that the identifiable assets acquired and liabilities assumed be measured at their fair values at the acquisition date. The identifiable assets acquired included $110.0 million and $753.2 million of PP&E assets, respectively. Management determined these fair values based on a fair value less cost of disposal methodology, calculating the present value of the expected future after-tax cash flows derived from the acquired oil and gas reserves.

The assumptions and estimates used to determine the acquired oil and gas reserves and the fair values of the acquired PP&E assets require significant judgment by management and include production costs, forecast benchmark commodity prices and discount rates. The acquired oil and gas reserves are prepared by the Company's independent qualified reserves evaluators (management's experts).

We considered this a key audit matter due to the significant judgment applied by management, including the use of management's experts, when developing the estimates of the acquired oil and gas reserves and the fair value of the acquired PP&E assets, including the development of

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the fair values of the acquired PP&E assets, which included the following:
  - Evaluated the appropriateness of the method used by management in determining the fair values.
  - Tested the data used in determining the fair values less costs of disposal.
  - Evaluated the reasonableness of assumptions used in determining the underlying fair values by:
    - Considering whether production costs were consistent with the actual performance of the acquired entities, and whether they were consistent with evidence obtained in other areas of the audit.
    - Comparing forecast benchmark commodity prices to other reputable third party industry forecasts.
    - Using professionals with specialized skill and knowledge in the field of valuation, who assisted us in assessing the reasonableness of the discount rates.
- The work of management's experts was used in performing the procedures to evaluate the reasonableness of the acquired oil and gas reserves used to determine the fair values of the PP&E assets. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by

assumptions. This, in turn, led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence related to the assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

management's experts, tests of the data used by management's experts and an evaluation of their findings.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Scott Don Althen.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 8, 2022

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(CA$ thousands)	[Note]	**December 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**1,245**	2,686
Accounts receivable	[4]	**96,741**	20,475
Prepaid expenses and deposits		**5,104**	1,529
Other current assets	[5]	**6,800**	-
Derivative financial instruments	[4]	**268**	-
Total current assets		**110,158**	24,690
Other non-current assets	[6]	**7,500**	-
Exploration and evaluation assets	[7]	**102,596**	2,538
Property, plant and equipment	[8]	**1,327,479**	256,939
Right-of-use assets	[9]	**51,789**	47,263
Deferred income tax asset	[14]	**142,892**	-
Total assets		**1,742,414**	331,430
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	**176,971**	34,149
Derivative financial instruments	[4]	**52,783**	2,063
Lease liabilities	[9]	**10,206**	6,853
Decommissioning obligations	[10]	**3,614**	2,833
Total current liabilities		**243,574**	45,898
Derivative financial instruments	[4]	**11,806**	1,074
Long-term debt	[11]	**387,564**	-
Lease liabilities	[9]	**44,590**	42,913
Decommissioning obligations	[10]	**168,231**	95,254
Deferred income tax liability	[14]	**-**	8,751
Total liabilities		**855,765**	193,890
SHAREHOLDERS' EQUITY			
Share capital	[13]	**517,192**	108,481
Warrants	[13]	**9,725**	9,891
Contributed surplus		**16,340**	9,996
Retained earnings		**343,392**	9,172
Total shareholders' equity		**886,649**	137,540
Total liabilities and shareholders' equity		**1,742,414**	331,430

Commitments and contingencies	[20]
Subsequent events	[22]

The accompanying notes are an integral part of these Financial Statements.

Approved on behalf of the Board of Directors:

[signed] "Richard McHardy"	*[signed] "Donald Archibald"*
Richard McHardy, Director	Donald Archibald, Director

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

		Year ended December 31	
(CA$ thousands, except per share amounts)	[Note]	**2021**	2020
Revenue			
Oil and gas sales	[15]	**608,142**	96,324
Royalties	[15]	**(66,639)**	(8,874)
Oil and gas sales, net of royalties		**541,503**	87,450
Pipeline transportation	[16]	**1,380**	-
Processing and other		**9,317**	3,389
		552,200	90,839
Loss on derivative financial instruments	[4]	**(28,357)**	(4,095)
Expenses			
Operating		**115,011**	34,476
Transportation		**34,738**	7,665
Pipeline transportation	[16]	**3,463**	-
General and administrative		**21,345**	9,235
Share based compensation	[13]	**6,257**	1,578
Financing	[17]	**15,499**	3,624
Depletion, depreciation and impairment	[7,8,9]	**102,886**	27,136
		299,199	83,714
Other income (expenses)			
Gain on sale of assets		**468**	244
Gain on acquisition	[6]	**127,854**	52,952
Discount rate adjustment on decommissioning obligations acquired	[6]	**-**	(13,106)
Transaction costs	[6]	**(4,002)**	(2,285)
Other income		**2,801**	203
Premium on flow-through shares	[13]	**10,098**	-
Change in fair value of convertible note	[12]	**(5,648)**	-
Foreign exchange gain	[4]	**312**	-
		131,883	38,008
Net income before income taxes		**356,527**	41,038
Income tax expense (recovery)	[14]	**22,307**	(6,625)
Net income and comprehensive income		**334,220**	47,663
Net income per share			
Basic	[13]	**2.89**	1.06
Diluted	[13]	**2.50**	0.86

The accompanying notes are an integral part of these Financial Statements.

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(CA$ thousands)	[Note]	Share capital	Warrants	Contributed surplus	Retained earnings (deficit)	Total
Balance at December 31, 2020		108,481	9,891	9,996	9,172	137,540
Net income and comprehensive income		-	-	-	334,220	334,220
Common shares issued, net of costs:						
Equity offerings	[13]	274,005	-	-	-	274,005
Deferred premium on flow-through shares	[13]	(10,098)	-	-	-	(10,098)
Pursuant to acquisitions	[6]	120,494	-	-	-	120,494
Conversion of convertible note	[12]	30,941	-	-	-	30,941
Issue costs, net of deferred tax	[13]	(7,635)	-	-	-	(7,635)
Warrants exercised	[13]	436	(166)	-	-	270
Stock options exercised	[13]	568	-	(168)	-	400
Share based compensation expense		-	-	6,512	-	6,512
Balance at December 31, 2021		**517,192**	**9,725**	**16,340**	**343,392**	**886,649**
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640
Net income and comprehensive income		-	-	-	47,663	47,663
Common shares issued, net of costs:						
Private placements		64,000	-	-	-	64,000
Issue costs, net of deferred tax		(1,461)	-	-	-	(1,461)
Warrants exercised		194	(74)	-	-	120
Share based compensation expense		-	-	1,578	-	1,578
Balance at December 31, 2020		108,481	9,891	9,996	9,172	137,540

The accompanying notes are an integral part of these Financial Statements.

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW

		Year ended December 31	
(CA$ thousands)	[Note]	**2021**	2020
Operating activities			
Net income		**334,220**	47,663
Items not affecting cash:			
Unrealized loss on derivatives	[4]	**391**	3,137
Unrealized foreign exchange gain	[4]	**(22)**	-
Share based compensation		**6,257**	1,578
Financing	[17]	**2,317**	2,427
Depletion, depreciation and impairment		**102,886**	27,136
Gain on acquisition		**(127,854)**	(52,952)
Discount rate adjustment on decommissioning obligations acquired		**-**	13,106
Gain on sale of assets		**(468)**	(244)
Other income	[10]	**(2,261)**	(203)
Premium on flow-through shares	[13]	**(10,098)**	-
Change in fair value of convertible note	[12]	**5,648**	-
Deferred income tax expense (recovery)	[14]	**22,307**	(6,625)
Settlement of acquired derivative liabilities	[4]	**(33,410)**	-
Settlement of decommissioning obligations	[10]	**(2,069)**	(1,429)
Change in non-cash working capital	[18]	**(18,078)**	(1,385)
Cash provided by operating activities		**279,766**	32,209
Financing activities			
Advances of long-term debt, net of costs	[11]	**544,564**	60,000
Repayments of long-term debt	[11]	**(157,000)**	(60,000)
Issue of common shares, net of costs	[13]	**264,759**	62,218
Lease payments	[9]	**(7,860)**	(3,392)
Change in non-cash working capital	[18]	**(6)**	98
Cash provided by financing activities		**644,457**	58,924
Investing activities			
Exploration and evaluation assets	[7]	**(18,140)**	(1,302)
Property, plant and equipment	[8]	**(170,835)**	(15,518)
Acquisitions	[6]	**(423,972)**	(109,213)
Dispositions	[8]	**453**	164
Corporate acquisitions, repayment of indebtedness	[6]	**(352,488)**	-
Corporate acquisitions, cash acquired	[6]	**24,634**	-
Change in non-cash working capital	[18]	**14,635**	12,769
Cash used in investing activities		**(925,713)**	(113,100)
Net change in cash and cash equivalents		**(1,490)**	(21,967)
Foreign exchange on cash and cash equivalents		**49**	-
Cash and cash equivalents, beginning of year		**2,686**	24,653
Cash and cash equivalents, end of year		**1,245**	2,686

The accompanying notes are an integral part of these Financial Statements.

1. GENERAL INFORMATION

Spartan Delta Corp. (“Spartan” or the “Company”) was incorporated under the *Business Corporations Act* (Alberta) on March 20, 2006. The Company is engaged in exploration, development and production of crude oil and natural gas properties in western Canada. These financial statements include the consolidated balances of all subsidiaries (note 21), however the Company does not have any material subsidiaries as at December 31, 2021. Spartan’s common shares are listed on the Toronto Stock Exchange (“TSX”) and trade under the symbol “SDE”. The Company’s head office is located at 1500, 308 – 4th Avenue S.W., Calgary, Alberta T2P 0H7 and its registered office address is 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

The Company appointed a new management team and new board of directors as part of a recapitalization transaction on December 19, 2019. On June 1, 2020, Spartan closed its first transformational acquisition of assets for total consideration of $108.8 million (the “BXE Asset Acquisition’) (note 6). The assets acquired are concentrated in the Deep Basin of west central Alberta, principally focused on development of liquids-rich natural gas and light oil prospects in the Spirit River and Cardium formations. The Consolidated Statements of Net Income and Comprehensive Income for the comparative year ended December 31, 2020, included the results of operations related to the acquired assets for the period from the closing date of the acquisition on June 1, 2020.

Spartan continued to execute on its acquisitive growth strategy during 2021 and closed a series of corporate and property acquisitions which established a second core development area targeting the Montney play in northwest Alberta, anchored by the acquisition of Inception Exploration Ltd. (“Inception”) with core assets located at Gold Creek (the “Inception Acquisition”) and the acquisition of assets located primarily in the Simonette area (the “Simonette Acquisition”), both of which closed on March 18, 2021. On August 31, 2021, Spartan closed the acquisition of Velvet Energy Ltd. (“Velvet”), a privately held light-oil Montney producer with operations primarily in the Gold Creek, Karr, and Pouce Coupe areas of northwest Alberta (the “Velvet Acquisition”). Spartan also completed several smaller tuck-in acquisitions to build upon the Company’s core land holdings in the Deep Basin and Alberta Montney. Total consideration for the acquisitions completed during 2021 was $569.8 million. In addition, Spartan assumed an aggregate of $387.5 million of net debt in connection with corporate acquisitions. Additional information regarding the acquisitions is provided in note 6.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated annual financial statements (the “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Company’s Board of Directors approved these Financial Statements on March 8, 2022.

b) Basis of measurement

Unless otherwise indicated, all references to dollar amounts in these Financial Statements and related notes are in thousands of Canadian dollars (CA$), which is the functional and presentation currency of the Company and its subsidiaries.

The Financial Statements have been prepared on a historical cost basis, except for certain financial instruments which are recorded at fair value as detailed in the accounting policies disclosed in note 4, “Financial Instruments and Risk Management”.

c) Significant estimates and judgements

The timely preparation of the Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies 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. Revisions to accounting estimates are recognized in the period in which the estimates are reviewed and for any future years affected. Significant judgements, estimates and assumptions made by management in these Financial Statements are discussed below.

i. Business Combinations

The application of the Company's accounting policy for business combinations requires management to make certain judgments in applying the optional concentration test under IFRS 3 Business Combinations ("IFRS 3"), to determine whether the acquired assets meet the definition of a business combination or an asset acquisition. Where an acquisition involves a group of assets and liabilities, and does not constitute a business, the acquirer must identify and recognize the individual assets acquired and liabilities assumed. The cost of the transaction is allocated to the assets acquired and liabilities assumed based on their relative fair values at the date of purchase. The January 2021 Acquisition, Canoe Acquisition, the other acquisitions of undeveloped land (all of which are defined and described in note 6(f) of these Financial Statements) did not meet the definition of a business combination and have been accounted for as asset acquisitions under IFRS 3.

Business combinations are accounted for using the acquisition method of accounting. The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of exploration and evaluation assets and property, plant and equipment acquired generally require the most judgement and include estimates of reserves acquired, production costs, forecast benchmark commodity prices, foreign exchange rates, and discount rates. Assumptions are also required to determine the fair value of decommissioning obligations associated with the properties. Initial recognition of the fair value of deferred tax liabilities or assessment of probability to recognize deferred tax assets requires judgment. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill (or gain on acquisition resulting from a bargain purchase) in the acquisition equation. Future net income (loss) will be affected as the fair value on initial recognition impacts future depletion and depreciation expenses, as well as the risk of potential impairment in future periods.

ii. Crude oil and natural gas reserves

The process of determining reserves is complex. Significant judgements are based on available geological, geophysical, engineering, and economic data. These judgements are based on estimates and assumptions that may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on production forecasts, future prices and the timing and amount of future expenditures. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation can be impacted by subjective decisions, new geological or production information and a changing environment. In addition, revisions to reserve estimates can arise from changes in forecast oil and gas prices and reservoir performance. Such revisions can be either positive or negative.

Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal ("FVLCD") of property, plant and equipment ("PP&E") for impairment calculations. Reserves also impact the Company's assessment of the commercial viability and technical feasibility of an exploration project and the decision to transfer exploration and evaluation ("E&E") assets to PP&E.

Spartan's reserves have been evaluated by independent qualified reserves evaluators as at December 31, 2021 and December 31, 2020 in accordance with the Canadian Oil and Gas Evaluation Handbook.

iii. Depletion of crude oil and natural gas assets

The Company calculates a depletion factor based on total production as a percentage of proved plus probable reserves. The depletion factor is applied to the total depletable base determined as the net book value of the assets and the total estimated future development capital ("FDC") expenditures for each depletion unit. Estimates for reserves and FDCs can have a significant impact on net earnings, as they are key components in the depletion calculation.

iv. Exploration and evaluation assets ("E&E")

The accounting for E&E assets requires management to make judgements as to whether E&E activities have discovered a sufficient amount of economically recoverable reserves, which requires the quantity and realizable value of such crude oil and natural gas products to be estimated.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the crude oil and natural gas products is technically feasible and commercially viable. E&E assets are subject to ongoing management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. In making this assessment, management considers changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions.

The carrying value of Spartan's E&E assets is assessed for overall impairment at the operating segment level and on a specific identification basis prior to transferring E&E assets to PP&E.

v. Determination of cash generating units ("CGUs")

The determination of CGUs requires judgement in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The Company has reviewed and realigned its CGUs taking into consideration the factors outlined above. As at December 31, 2021, Spartan has two CGUs, namely: "Deep Basin", comprised primarily of the Company's assets located in west central Alberta and "Montney", comprised primarily of the Company's assets in northwest Alberta as well as minor properties located in northeastern British Columbia.

vi. Recoverability of asset carrying values

Management applies judgement in assessing indicators of impairment and reversal of impairment based on various internal and external factors. The recoverable amount of a CGU or of an individual asset is determined as its fair value less costs of disposal. The key estimates in management's determination of recoverable amounts includes future commodity prices, expected production volumes, quantity of reserves and resources, future development and operating costs, discount rates, and income taxes. The evolving global demand to transition from carbon-based sources to alternative energy sources may also impact the assumptions used in determination of recoverable amounts, however, the timing of this impact is highly uncertain.

vii. Decommissioning obligations

Spartan estimates abandonment and reclamation costs based on a combination of publicly available industry information and internal site-specific information. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, market conditions, discovery and analysis of site conditions and emergence of new restoration techniques. The expected timing of abandonment and reclamation is also subject to change and impacts inflated future cost estimates and the estimated carrying amount (present value) of decommissioning obligations.

viii. Fair value of financial instruments

The estimated fair value of derivative financial instruments is reliant upon several variables and may include forward curves for commodity prices, foreign exchange rates, or other variables depending on the nature of the underlying contract. A change in any one of these variables could materially impact the valuation of the instrument on the balance sheet date. Furthermore, as these instruments are "marked-to-market" at the end of each reporting period, unrealized gains or losses can result in volatility of net income or loss. A sensitivity of the potential change in fair value of Spartan's outstanding derivative financial instruments as at December 31, 2021 is provided in note 4.

ix. *Leases*

Management applies judgement in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease. Leases that are recognized are subject to further management judgement and estimation in various areas specific to the arrangement, including lease term and discount rate. In determining the lease term to be recognized, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Where the rate implicit in a lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to Spartan's company-specific incremental borrowing rate. This rate represents the rate that Spartan would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment. Refer to note 9 for additional information.

x. Deferred income taxes

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. Consequently, deferred income taxes are subject to measurement uncertainty. Deferred tax liabilities are recognized when it is considered probable that temporary differences will be payable to tax authorities in future periods. Deferred tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. The Company expects to have sufficient taxable profits in the future to utilize its non-capital losses.

Judgement is required to determine an accounting policy to recognize deferred income tax assets that were not previously recognized. During 2021, Spartan applied judgement in respect of an unrecognized deferred tax asset of $41.8 million on initial recognition of the January 2021 Acquisition which was accounted for as an asset acquisition under IFRS 3 (note 6). Spartan's policy is to recognize the previously unrecognized non-capital losses in proportion to the estimated amount of taxable income generated each period, or when it is reasonably certain that the non-capital losses will be utilized. Based on the Company's expectation of future taxable profits, the full amount of the tax benefit was subsequently recognized in net income during the year resulting in a reduction of deferred income tax expense by $12.9 million and $41.8 million for the three months and year ended December 31, 2021, respectively.

A detailed analysis of the provision for deferred income taxes in provided in note 14 of these Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are set out below.

a) Basis of consolidation

The Financial Statements include the accounts of Spartan and its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As at December 31, 2021, Spartan had three wholly owned subsidiaries (note 21). The Company's subsidiaries are not individually or, in aggregate, material to the Financial Statements. The financial statements of the Company's subsidiaries are prepared for the same reporting period as Spartan, using uniform accounting policies. The subsidiary financial statements are consolidated from the date of acquisition of control and continue to be consolidated until the date there is a loss of control. All intercompany balances, revenues and expenses are eliminated on consolidation.

b) Cash and cash equivalents

Cash and cash equivalents include cash held on deposit and/or short-term investments with original maturities of three months or less at the time of purchase.

c) Financial instruments

Classification and measurement of financial assets and financial liabilities

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are recognized on the Consolidated Statements of Financial Position at the time the Company becomes a party to the contractual provisions. The Company's financial assets and financial liabilities are classified into two categories: Amortized Cost and Fair Value through Profit and Loss ("FVTPL"). The classification of financial assets is determined by their context in Spartan's business model and by the characteristics of the financial asset's contractual cash flows.

Financial assets and financial liabilities are measured at fair value on initial recognition. Subsequent measurement is dependent on the financial instrument's classification.

Amortized Cost

Cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued liabilities, lease obligations and long-term debt are measured at amortized cost. The contractual cash flows received from financial assets are payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. Financial assets and liabilities classified as amortized cost are subsequently measured at amortized cost using the effective interest rate method.

FVTPL

The Company's risk management contracts are measured initially at FVTPL and are subsequently measured at fair value with changes in fair value immediately recognized in the Consolidated Statements of Net Income and Comprehensive Income.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in its principal or most advantageous market at the measurement date. The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company maximizes the use of observable inputs when preparing calculations of fair value, where possible.

The fair value hierarchy has the following levels:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy.

Impairment of financial assets

An impairment of financial assets is recognized using an Expected Credit Loss ("ECL") model. Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. To measure the expected credit losses, accounts receivable have been grouped based on shared credit risk characteristics and days past due.

The Company uses judgement in making these assumptions and selecting the inputs into the expected loss calculation based on historically realized bad debts, evidence of a debtor's present financial condition, existing market conditions and forward-looking estimates. The ECL is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of possible default events related to the financial asset and are measured as the difference between the present value of the cash flows due to the Company and the cash flows expected to be received.

d) Exploration and Evaluation Assets and Property, Plant and Equipment

Exploration and evaluation expenditures

E&E costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. E&E costs may include costs of license acquisition, technical services and studies, seismic acquisition, exploration drilling and testing. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to profit or loss as exploration expense in the period incurred. The Company did not incur pre-license costs in the current or prior period.

When a project classified as E&E is determined to be commercially viable and technically feasible and reserves have been assigned, the relevant costs are transferred from E&E to PP&E.

E&E assets are assessed for impairment upon transfer to PP&E or when facts and circumstances suggest that the carrying amount may exceed the estimated recoverable amount. If it has been determined there has been an impairment, the impairment will be charged to the Consolidated Statement of Net Income and Comprehensive Income in the period incurred.

Non-producing assets classified as E&E are not depleted.

Development and Production ("D&P") Assets

All costs directly associated with the development of crude oil and natural gas reserves are capitalized on a CGU basis. These costs may include certain overhead charges including cash and share based compensation paid to personnel dedicated to capitalized projects. Overhead charges are capitalized to E&E and PP&E using a specific identification methodology. Share based compensation expense is capitalized consistently with other employee benefits.

Development costs include expenditures for CGUs where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure, decommissioning liabilities and transfers of E&E assets.

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as oil and natural gas interests only when they increase the future economic benefits of the specific asset to which they relate. All other expenditures are recognized in the Consolidated Statements of Net Income and Comprehensive Income as incurred.

Gains and losses on disposal of an item of PP&E, including oil and natural gas assets, are determined by comparing the proceeds from disposal with the carrying amount of the PP&E and are recognized net within the gain on sale of assets in the Consolidated Statements of Net Income and Comprehensive Income.

Depletion of D&P assets

D&P assets are depleted using a unit-of-production method based on:

- Total estimated proved plus probable reserves calculated in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101");
- Total capitalized costs including estimated FDC of proved plus probable reserves; and
- Production volumes, before royalties, converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil.

PP&E other than D&P assets

Property, plant and equipment other than D&P assets are stated at cost, less accumulated depreciation and historical impairments. Depreciation is provided at rates estimated to write off the cost, less estimated residual value of each asset over its expected useful life as follows:

- Natural gas processing plant – 15 years straight line
- Office equipment – 3 years straight line
- Vehicles – 5 years straight line

Impairment

An impairment test will be performed whenever events and circumstances indicate that the carrying value of the asset or CGU may exceed the estimated recoverable amount. The recoverable amount is the higher of the FVLCD and the value in use. In assessing the FVLCD for oil and natural gas assets, the estimated future net cash flows associated with the CGUs are used based on management's best estimate of reserves. If there is indication of an impairment, the costs carried on the Consolidated Statement of Financial Position in excess of the recoverable amount are charged to the Consolidated Statements of Net Income and Comprehensive Income.

Impairment losses from prior periods are assessed at each reporting date for indications that the impairment loss no longer exists or has decreased. Impairment losses are reversed if there is a change in the estimates used to determine the recoverable amount which causes the recoverable amount to exceed the carrying amount. Reversal of impairment losses cannot exceed the carrying value of the asset prior to impairment less any depletion and depreciation expense that would have resulted had impairment not been recorded.

e) Foreign Currency

Transactions in foreign currencies are translated into the Company's functional currency at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Translation gains and losses are included in earnings in the period in which they arise.

f) Joint operations

A portion of the Company's exploration, development and production activities is conducted jointly with others through unincorporated joint ventures. These Financial Statements reflect only the Company's proportionate interest of these jointly controlled assets and the proportionate share of the relevant revenue and related costs.

g) Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the commencement date, the lease liability is recognized at the present value of the future lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate. A corresponding right-of-use ("ROU") asset will be recognized at the amount of the lease liability, adjusted for any lease incentives received and initial direct costs incurred. Over the term of the lease, financing expense is recognized on the lease liability using the effective interest rate method and charged to net income, lease payments are applied against the lease liability and depreciation on the ROU asset is recorded by class of underlying asset.

The lease term is the non-cancellable period of a lease and includes periods covered by an optional lease extension option if reasonably certain the Company will exercise the option to extend. Conversely, periods covered by an option to terminate are included if the Company does not expect to end the lease during that time frame. Leases with a term of less than twelve months or leases for underlying low value assets are recognized as an expense in net income on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if it materially changes the scope of the lease. For a modification that is not a separate lease, on the effective date of the lease modification, the Company will remeasure the lease liability and corresponding ROU asset using the interest rate implicit in the lease or the Company's incremental borrowing rate. Any variance between the remeasured ROU asset and lease liability will be recognized as a gain or loss in net income to reflect the change in scope.

h) Decommissioning obligations

Provisions for decommissioning obligations are recognized when the Company has an obligation to dismantle and remove a facility or abandon a well and restore the site on which it is located. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements using a risk-free rate. An equivalent amount is capitalized as part of the cost of the related asset. On a periodic basis, management reviews these estimates and changes, if any, are applied prospectively. These changes are recognized as an increase or decrease to the liability, with a corresponding increase or decrease to the carrying amount of the related asset.

The capitalized amount in PP&E is depreciated on a unit-of-production basis over the life of the associated proved plus probable reserves. The long-term liability is increased each reporting period with the passage of time and the associated accretion charged is recognized in the Consolidated Statements of Net Income and Comprehensive Income.

Actual costs incurred upon settlement of the decommissioning liabilities are charged against the provision.

i) Revenue recognition

Spartan evaluates its arrangements with third parties and partners to determine if the Company acts as a principal or as an agent. In making this evaluation, management considers if Spartan obtains control of the product delivered, which is indicated by Spartan having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If Spartan acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Processing fees charged to other entities for use of pipelines and facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Processing fees charged to other entities under contracts with customers are recognized in revenue when the related services are provided.

j) Transportation

Costs paid by Spartan for the transportation of crude oil, condensate, natural gas and NGLs to the point of control transfer are recognized when the transportation is provided.

k) Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all conditions associated with the grant are met. Claims under government grant programs related to income are deducted in reporting the related expense and are recorded in the period in which eligible expenses were incurred or when the services have been performed.

l) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 Business Combinations. Management's determination of whether a transaction constitutes a business combination or an asset acquisition is determined based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The decommissioning obligations associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk free discount rate, with any changes recognized in the decommissioning liabilities and PP&E on the Consolidated Statement of Financial Position. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net identifiable assets acquired, a gain on business combination is recognized immediately in net income or loss. Any deferred tax asset or liability arising from the business combination is recognized at the acquisition date. Transaction costs associated with a business combination are expensed as incurred. Results of acquisitions are included in the Financial Statements from the closing date of acquisition.

m) Taxation

The provision for (recovery of) income tax is comprised of current and deferred income taxes and is recognized in the Consolidated Statements of Net Income and Comprehensive Income, except to the extent that it relates to a business combination or items recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The liability is measured based on an assessment of possible outcomes and their associated probabilities.

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The accounting for an asset acquisition may give rise to an unrecognized deferred income tax asset on initial recognition. Spartan adopted a policy whereby the previously unrecognized deferred income tax asset will subsequently be recognized in net income in proportion to the estimated amount of taxable income generated in each period or when it is probable that future taxable profits will be available against which unused tax losses can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized in the same manner as unrecognized tax assets and is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

n) Share based compensation

The Company's share based compensation plan has previously allowed for the granting of equity-settled awards in connection with the Company's stock option plan. In 2020, the Board of Directors approved the implementation of a share award incentive plan, pursuant to which, the Company may grant restricted share awards ("RSA") and performance share awards ("PSA") to directors, officers, employees and consultants of the Company. Details regarding the plan are provided in note 13(e). The plan allows the holder of an RSA or PSA to receive a cash payment or its equivalent in fully-paid common shares, at the Company's discretion, equal to the fair market value of the Company's common shares calculated at the date of such payment. Spartan does not intend to make cash payments under the plan and, as such, the RSAs and PSAs are accounted for within shareholders' equity as equity-settled awards.

Equity-settled share based compensation is measured at the fair value of the equity instruments at the grant date and is estimated using a Black-Scholes model that takes into account, as of the grant date, the exercise price, expected life, current price, expected volatility and risk-free interest rates. The fair value determined at the grant date is expensed over the vesting period with a corresponding increase in contributed surplus.

A forfeiture rate is estimated on the grant date. The forfeiture rate is reviewed each reporting period and adjusted to reflect the actual number of awards expected to vest. The impact of the revision in estimate, if any, is recognized in the Consolidated Statements of Net Income and Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus. Any consideration paid to the Company on the exercise is credited to share capital.

The Company may issue warrants in conjunction with financings. The fair value of the warrants issued is also estimated using a Black-Scholes model and recorded in shareholders' equity. Any consideration paid to the Company on the exercise of warrants along with the fair value of warrants is credited to share capital.

o) Flow-through shares

Canadian tax legislation permits entities meeting specified criteria to issue securities to investors whereby the deductions for tax purposes related to eligible expenditures may be claimed by the investors rather than by the entity (herein referred to as "flow-through shares"). The Company uses the residual method to account for flow-through shares. Under this method, the proceeds from the issuance are allocated between i) the proceeds of the offering of shares, and ii) the renunciation of tax deductions. At the time the flow-through shares are issued: i) shareholders' capital is credited based on the fair value of ordinary common shares, and ii) the tax deductions to be renounced are deferred and presented as a liability in the Consolidated Statements of Financial Position, at an amount equal to the residual difference between the fair value of the Company's ordinary common shares relative to the amount the investor pays for the flow-through shares. At the time the Company fulfills its obligation to pass on the tax deductions to investors, which is deemed to occur when the eligible expenditures are incurred, the liability (deferred premium) is drawn down in proportion to the eligible expenditures incurred in the period and the premium on flow-through shares is recognized as income in the Consolidated Statements of Net Income and Comprehensive Income. Concurrently, a deferred income tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of the eligible expenditures capitalized as an asset for accounting purposes and a tax base of nil, because the deduction has been renounced to investors.

p) Net income per share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. For the diluted net income per share calculation, the weighted average number of common shares outstanding is adjusted for the potential number of common shares which may have a dilutive effect on net income per share. The weighted average number of diluted shares is calculated in accordance with the treasury stock method. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price.

q) Future Accounting Changes

The IASB has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for annual periods beginning on or after January 1, 2022. Spartan will continue to evaluate the impact of the pronouncements which will be adopted on their respective effective dates.

IAS 12, Income Taxes

In May 2021, the IASB amended IAS 12 Income Taxes (“IAS 12”) to address the accounting for deferred taxes for certain types of transactions, such as those involving leases and decommissioning liabilities. The IASB made these changes through an IAS 12 amendment, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, which is applicable to periods beginning on or after January 1, 2023.

The amendment requires companies, at the beginning of the earliest comparative period presented: (a) to recognize a deferred tax asset – to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized – and a deferred tax liability for all deductible and taxable temporary differences associated with: right-of-use assets and lease liabilities; and decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related asset; and (b) to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. This will reflect the opening position, without the need for full retrospective application. This amendment is not expected to have a material impact on the Company’s Consolidated Financial Statements.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2021, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, other current assets, accounts payable and accrued liabilities, derivative financial instruments, and long-term debt. The fair values of these financial assets and liabilities, excluding long-term debt, approximate their carrying value due to the short term to maturity of those instruments. The fair value of long-term debt approximates its carrying value given it bears floating rates of interest (note 11). The methodology used to determine the fair value for the Company’s derivative financial instruments is described further in this note. Lease liabilities are financial liabilities measured at amortized cost.

The Company is exposed to financial risks arising from its financial assets and liabilities that include credit and liquidity risk, in addition to the market risks associated with commodity prices, and interest and foreign exchange rates. Net income, cash flows and the fair value of financial assets and liabilities may fluctuate due to movement in market prices or as a result of the Company's exposure to credit and liquidity risks.

Risk Management Overview

Spartan's risk management objective is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns. The Company uses derivative financial instruments to manage market risks and has certain minimum hedging requirements under its Credit Facility (defined in note 11). All such transactions are conducted in accordance with the Company's established risk management policies that permit management to enter into derivative financial contracts, provided that:

i) the contracts are not entered into for speculative purposes;
ii) the aggregate quantity hedged, at the time of entering into the contract, does not exceed 75% of future forecasted average daily production; and
iii) the contracted term does not exceed 36 months.

a) Credit Risk

The carrying amount of cash and cash equivalents, accounts receivable, deposits, and derivative financial instrument assets represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with Canadian chartered banks and collection risk on derivative financial instrument assets is mitigated by a cross-default provision under the Credit Facility. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

The composition of the Company's accounts receivable is set out in the following table:

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Oil and gas marketers	**90,807**	15,986
Joint venture partners	**5,934**	4,100
GST input tax credits	**-**	389
Accounts receivable	**96,741**	20,475

During the year ended December 31, 2021, sales to three oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 27%, 13% and 10% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are large, credit-worthy institutions. The Company has parental guarantees or letters of credit in place with certain key marketers covering approximately one-fifth of Spartan's credit exposure as at December 31, 2021.

The aging of the Company's accounts receivable is summarized as follows:

(CA$ thousands)	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at December 31, 2021	**93,490**	**1,633**	**381**	**1,237**	**96,741**
Balance at December 31, 2020	17,345	1,299	1,216	615	20,475

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days, however the collection period is typically between 60 to 90 days. Amounts outstanding for more than 90 days are generally considered "past due" and relate primarily to receivables from the Company's joint venture partners. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Management has reviewed past due accounts receivable balances as at December 31, 2021 and expects the accounts to be collectible, except for approximately $1.1 million of accounts receivable which are provided for in the expected credit loss provision ($0.2 million at December 31, 2020). Included in the expected credit loss provision as at December 31, 2021 are provisions applied to certain accounts receivable balances acquired through Inception and Velvet of $0.3 million and $0.4 million respectively (note 6).

b) Liquidity Risks

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they become due. The Company's financial liabilities as at December 31, 2021 include accounts payable, derivative financial instrument liabilities and long-term debt. In addition, the Company has financial commitments in respect of lease liabilities (note 9). Spartan also expects to settle approximately $3.6 million of decommissioning obligations in the next twelve months (note 10), however the current portion of decommissioning obligations is not included in this note because the timing of expenditure is discretionary.

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations. As at December 31, 2021, Spartan had $150.0 million outstanding under its second lien term facility and $245.6 million of bank debt outstanding on its revolving credit facility with an authorized borrowing amount of $450.0 million (note 11). The Company has sufficient liquidity to meet its financial obligations for the next 12 months.

The following table outlines a contractual maturity analysis for the Company's financial liabilities and undiscounted lease liabilities as at December 31, 2021:

(CA$ thousands)	1 year	2 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	176,971	-	-	-	176,971
Derivative financial instrument liabilities	52,783	11,806	-	-	64,589
Bank debt (1)	11,541	250,324	-	-	261,865
Second lien term facility (2)	12,300	28,290	164,410	-	205,000
Undiscounted lease liabilities (3) (note 9)	12,165	34,806	14,051	3,152	64,174
Total	**265,760**	**325,226**	**178,461**	**3,152**	**772,599**

(1) Includes interest and standby fees at annual rates of 4.7% and 0.8%, respectively, being the applicable rates on the Credit Facility (defined in note 11) as at December 31, 2021. For purposes of the above table, principal repayment is assumed on the term maturity date of May 31, 2023, however the Company currently expects the credit facilities to be extended at the end of the current revolving period. There is no guarantee that the Credit Facility will be extended or renewed by the lenders with the same borrowing base.

(2) Includes interest and annual review fees at an annual rate of 8.2% being the combined average rate applicable to outstanding debt on the Term Facility (defined in note 11) as at December 31, 2021. Mandatory principal repayments of approximately $0.9 million per month commence on September 1, 2024 and the remaining balance of $127.5 million is repayable on the maturity date of August 31, 2026.

(3) As at December 31, 2021, the present value of the Company's total lease liability is $54.8 million, of which $10.2 million is expected to be settled in the next twelve months.

c) Market Risks

Market risk is the risk that changes in market conditions, such as commodity prices, interest rates and foreign exchange rates, will affect the Company's cash flows, net income, or fair value of financial instruments. Spartan's risk management objective is to manage and control market risk exposures within acceptable limits, while maximizing long-term returns.

The Company utilizes both derivative financial instruments and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with the Company's risk management policies.

Commodity price risk

Inherent to the business of producing oil and gas, the Company's revenue and cash provided by operating activities is subject to commodity price risk. Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are impacted by world economic events that dictate the levels of supply and demand as well as the currency exchange rate relationship between the Canadian and U.S. dollar.

As at December 31, 2021, Spartan has commodity price risk management contracts in place to protect cash flows and project economics. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges, even though the Company considers all commodity contracts to be effective economic hedges. As a result, all such financial commodity contracts are recorded on the Consolidated Statements of Financial Position at fair value, with changes in the fair value being recognized as an unrealized gain or loss through the Consolidated Statements of Net Income and Comprehensive Income.

A summary of financial risk management contracts outstanding is provided in subsection d) of this note.

Foreign exchange risk

Currency risk is the risk that future cash flows will change as a result of fluctuations of the Canadian to U.S. dollar exchange rate. Spartan is exposed to currency risk given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. The Company is also exposed to currency fluctuations through its U.S. dollar denominated derivatives, commodity sales, and pipeline transportation revenues and expenses. In addition, Spartan is exposed to currency risk on U.S. cash, accounts receivable and accounts payable balances, however the Company's currency exposure based on U.S. dollar denominated working capital balances outstanding at December 31, 2021 was not significant.

The table below summarizes the realized and unrealized component of the foreign exchange gain during the year:

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Realized foreign exchange gain	**290**	-
Unrealized foreign exchange gain	**22**	-
Foreign exchange gain	**312**	-

Spartan may enter into foreign exchange risk management contracts from time-to-time to manage currency risk on the Company's U.S. dollar denominated cash flows. As at December 31, 2021, Spartan had short-term foreign exchange forward swaps in place to fix the exchange rate between the timing of collection of U.S. dollar revenues to payment of U.S. dollar hedge settlements. The fair value of the foreign exchange contracts resulted in a current derivative financial instrument liability of $0.1 million at December 31, 2021.

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 Company is exposed to interest rate risk on long-term debt which bears floating rates of interest. Under the Credit Facility (note 11), interest rates fluctuate based on the bank prime rate plus an applicable margin, which varies based on the Company's net debt to cash flow ratio each quarter. Under the Term Facility (note 11), interest fluctuates based on the bank prime rate, however the spread is fixed at 5.25%. Based on the balance of long-term debt outstanding at December 31, 2021, an increase (decrease) in the market rate of interest by 50 basis points would increase (decrease) annualized interest expense by approximately $1.9 million.

d) Risk Management Contracts

The following tables summarize the Company's risk management contracts outstanding as at December 31, 2021:

	Natural Gas [1]						Crude Oil [1]	
	NYMEX Henry Hub Swaps/ Collar [2][3][4]		NYMEX – AECO 7A Basis Swaps – Short [3]		AECO 7A Swaps - Short		US$ WTI Swaps [5]	
Period	Volume mmbtu/d	Floor – Ceiling US$/mmbtu	Volume mmbtu/d	US$/mmbtu	Volume GJ/d	C$/GJ	Volume bbl/d	US$/bbl
Q1 2022	70,000	$2.74 - $3.08	85,000	($1.13)	35,000	$2.25	4,750	$49.15
Q2 2022	55,000	$2.70 - $2.81	85,000	($1.13)	-	-	4,000	$49.30
Q3 2022	55,000	$2.70 - $2.81	85,000	($1.13)	-	-	-	-
Q4 2022	35,109	$2.81 - $2.87	85,000	($1.15)	-	-	-	-
Q1 2023	26,389	$2.83 - $2.83	85,000	($1.13)	-	-	-	-
Q2 2023	10,000	$2.65 - $2.65	85,000	($1.09)	-	-	-	-
Q3 2023	10,000	$2.65 - $2.65	85,000	($1.08)	-	-	-	-
Q4 2023	10,000	$2.65 - $2.65	85,000	($1.08)	-	-	-	-
Asset (Liability)	**($24.7) million**		**($10.4) million**		**($4.7) million**		**($24.5) million**	

(1) The prices and volumes in this table represent averages for contracts represented in the respective periods.
(2) Represent collar positions with a floor price (long put) and a price ceiling (short call) for Spartan.
(3) NYMEX swaps are settled based on the last day of settlement of monthly futures contracts.
(4) Floor and ceiling represent the average strike price of the long put and short call positions.
(5) WTI swaps are settled based on the WTI calendar month average.

Refer to note 22 "Subsequent Events" for information regarding new contracts entered after the reporting period.

Summary of derivative financial instrument assets and liabilities

The fair value of the Company's outstanding risk management contracts resulted in a net derivative financial instrument liability of $64.3 million at December 31, 2021, compared to a liability of $3.1 million at December 31, 2020. The net increase in derivative financial instrument liabilities during the year primarily relates to the fair value of risk management contracts assumed in connection with the Velvet Acquisition of $94.2 million on August 31, 2021 (note 6), of which $33.4 million was subsequently settled during the year.

(CA$ thousands)	**Current**	**Long-term**	**Total**
Balances at December 31, 2021:			
Derivative financial instrument assets	268	-	268
Derivative financial instrument liabilities	(52,783)	(11,806)	(64,589)
Net liability	**(52,515)**	**(11,806)**	**(64,321)**
Balances at December 31, 2020:			
Derivative financial instrument assets	-	-	-
Derivative financial instrument liabilities	(2,063)	(1,074)	(3,137)
Net liability	**(2,063)**	**(1,074)**	**(3,137)**
Reconciliation of net change during the year:			
Unrealized loss recognized in net income			(391)
Derivative financial instruments acquired, net (note 6)			(94,203)
Settlement of acquired derivative liabilities			33,410
Total change in derivative financial instruments			**(61,184)**

The fair values of derivative financial instruments are designated as Level 2 in the fair value hierarchy and are highly sensitive to changes in underlying commodity prices. The table below illustrates the stand-alone impact of changes in specified benchmark prices and differentials on net income before income taxes, holding all other variables constant, of risk management contracts in place as at December 31, 2021:

(CA$ thousands)		Change in price/ differential	Positive movement	Negative movement
WTI	US$/bbl	+/- $ 5.00	(4,930)	4,930
NYMEX Henry Hub ("HH")	US$/mmbtu	+/- $ 0.25	(6,791)	6,791
NYMEX HH-AECO 7A Basis(1)	US$/mmbtu	+/- $ 0.10	(7,343)	7,343
AECO 7A	C$/GJ	+/- $ 0.25	(509)	509
CA$/US$ exchange rate		+/- $ 0.05	369	(369)

(1) A positive or negative movement means that the differential is narrowing or widening, respectively.

Gains and losses on derivative financial instruments

The table below summarizes the realized and unrealized component of gain and losses on the Company's derivative financial instruments during the years:

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Realized loss	**(27,966)**	(958)
Unrealized loss	**(391)**	(3,137)
Loss on derivative financial instruments	**(28,357)**	(4,095)

Offsetting of financial instruments

Financial assets and liabilities are only offset in the Consolidated Statements of Financial Position if the Company has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. Spartan offsets derivative financial instrument assets and liabilities when the counterparty, commodity, currency and timing of settlement are the same.

5. OTHER CURRENT ASSETS

In December 2021, the Company entered into an agreement with an industry partner to construct infrastructure in its core operating area at Gold Creek, Alberta. The infrastructure will be constructed by the Company and transferred to the midstream partner upon completion of construction in consideration for the purchase price. As of December 31, 2021, Spartan had incurred approximately $6.8 million of construction costs which are presented as other current assets on the Consolidated Statement of Financial Position. It is expected that the infrastructure project will be completed and transferred to the midstream partner within twelve months.

Pursuant to the agreement, Spartan committed to drill and tie-in a minimum of 16 wells over a three-year period ending December 31, 2024 (see also, note 20). As of December 31, 2021, Spartan had drilled three qualifying wells and expects to fully satisfy its commitment for the remaining 13 wells with its planned capital expenditure budget for 2022. In the event Spartan does not satisfy its minimum drilling commitments, the Company would be subject to a penalty of $2.1 million per well.

6. ACQUISITIONS

a) BXE Asset Acquisition

On June 1, 2020, the Company acquired substantially all of assets of Bellatrix Exploration Ltd. ("BXE") for total consideration of $108.8 million (the "BXE Asset Acquisition"). The assets acquired are primarily located in the Deep Basin of west central Alberta and are comprised of interests in producing crude oil and natural gas properties alongside an extensive land base, as well as working interest ownership in strategic infrastructure. Spartan assessed the property acquisition and determined it to constitute a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the closing date, as well as the resulting gain on acquisition:

(CA$ thousands)	**June 1, 2020**
Cash purchase price	87,532
Assumed liabilities	21,250
Total consideration	**108,782**
Exploration and evaluation assets	895
Property, plant and equipment	203,845
Right-of-use assets	50,642
Lease liabilities	(50,642)
Decommissioning obligations	(27,189)
Deferred income tax liability	(15,817)
Fair value of net assets acquired	**161,734**
Gain on acquisition	**(52,952)**

Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $53.0 million. The COVID-19 pandemic and collapse of global crude oil prices in March and April 2020 exacerbated the financial challenges facing BXE, which had previously commenced restructuring proceedings under the *Companies' Creditors Arrangement Act* (Canada) on October 2, 2019. The gain is attributed to the distressed nature of the transaction and Spartan's ability to access capital in a challenging business environment, allowing the Company the opportunity to acquire assets at a historically low valuation. The Company incurred approximately $2.3 million of transaction costs related to the acquisition that are recognized as an expense during the year ended December 31, 2020.

The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement) calculated using the present value of the expected future cash flows after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on BXE's oil and gas reserves which was prepared by an independent qualified reserve evaluator as of December 31, 2019. The cash flow estimates derived from the 2019 reserve report were internally updated by Spartan to reflect the following changes to key assumptions as of the June 1, 2020 closing date of the acquisition:

- the long-term forecast for commodity prices and foreign exchange rates was revised based on an average of the second quarter 2020 forecasts published by four independent qualified reserve evaluators;
- mechanical update of the reserves database to a reference/discount date of June 1, 2020, such that forecast cash flows for 2020 are for the remaining seven-month period ending December 31, 2020;
- FDC expenditures were reduced to $35.2 million to reflect the low-end of Spartan's planned capital expenditures for the acquired assets; and
- the impact of changes in marketing and transportation contracts on realized pricing relative to benchmark prices, as well as the impact of disclaimed contracts on forecasted operating and transportation costs.

The Consolidated Statements of Net Income and Comprehensive Income for the year ended December 31, 2020 includes the results of operations for the BXE assets acquired starting from the closing date. Specifically, Spartan's net income for the year ended December 31, 2020, includes $89.3 million of revenue (after royalties) and $48.8 million of operating income generated from the BXE assets for the period from June 1 to December 31, 2020. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2020, pro-forma revenue and operating income is estimated to be approximately $153.1 million and $83.7 million, respectively, for the year ended December 31, 2020. Given this estimate is based on an extrapolation of June to December results, this pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

b) Inception Acquisition

On March 18, 2021, Spartan closed the acquisition of Inception by way of an exempt take-over bid for total consideration of $117.4 million. Inception was an oil-weighted Montney focused private company with operations primarily in the West Gold Creek area of northwest Alberta. Spartan acquired all of the issued and outstanding common shares of Inception in exchange for an aggregate of 23,734,379 Spartan common shares, of which the majority of common shares were issued to a major shareholder and debtholder of Inception, ARETI Energy S.A. ("ARETI"). Upon closing of the Inception Acquisition, ARETI acquired ownership and control over 23,675,779 Spartan common shares representing approximately 20.8% of the total number of Spartan common shares issued and outstanding on a non-diluted basis (see note 21). The fair value of common share consideration was $92.1 million based on Spartan's closing share price on the TSX Venture Exchange ("TSXV") of $3.88 per common share on March 18, 2021. In addition, Spartan issued a $50.0 million unsecured non-interest bearing convertible promissory note (the "Convertible Note") to ARETI. The fair value of the Convertible Note was $25.3 million on the acquisition date. Additional information regarding the terms, valuation and subsequent conversion of the Convertible Note are provided in note 12.

Inception was vertically amalgamated with Spartan on the closing date. A wholly owned subsidiary of Inception was not amalgamated and continues to operate as a separate legal entity (see note 21).

Spartan assessed the corporate acquisition and determined it to constitute a business combination in accordance with IFRS 3. The following table summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the closing date:

(CA$ thousands)	**March 18, 2021**
Common share consideration	92,089
Convertible promissory note	25,293
Total consideration	**117,382**
Net working capital [(1)]	(3,620)
Other non-current assets	7,500
Exploration and evaluation assets	7,163
Property, plant and equipment	109,976
Right-of-use assets	1,048
Lease liabilities	(1,048)
Decommissioning obligations	(1,800)
Deferred income tax asset	33,899
Fair value of net assets acquired [(2)]	**153,118**
Gain on acquisition [(2)]	**(35,736)**

(1) The balance of accounts receivable acquired is net of a provision for expected credit losses of approximately $0.3 million.

(2) The fair values of identifiable assets and liabilities acquired and resulting gain on acquisition are based on management's best estimates based on information available at the time of preparing these Financial Statements. The reader is cautioned that future revisions to these estimates over the measurement period (one year from the closing date of the acquisition) could result in a change from the amounts reported herein.

The gain of $35.7 million recognized on the Inception Acquisition reflects the estimated fair value of the net assets acquired in excess of total consideration of $117.4 million. The gain is primarily attributed to significant tax pools assumed by acquiring the corporate entity. Inception's unused tax pools were estimated to be $284.7 million on the acquisition date, of which approximately half are non-capital losses. The unused tax losses and deductible temporary differences resulted in a deferred income tax asset of $39.6 million, net of a deferred income tax liability on taxable temporary differences of $5.7 million. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Based on forecast cash flows in the Inception reserves report, Spartan expects the successored properties to generate sufficient taxable income in the future to utilize the deductions from successored resource pools estimated to be $98.5 million. Spartan also expects to generate sufficient taxable income corporately to utilize the non-capital losses prior to expiry in years 2031 to 2040.

The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement), calculated using the present value of the expected future cash flows after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on acquired oil and gas reserves which was prepared for the vendor by an independent qualified reserve evaluator as of December 31, 2020. The cash flow estimates derived from the independent reserve report were internally updated by Spartan to reflect the following changes to key assumptions as of March 18, 2021:

- the long-term forecast for commodity prices and foreign exchange rates was revised based on an average of the forecasts published by three independent qualified reserve evaluators, current as of the acquisition date;
- mechanical update of the reserves database to March 18, 2021, such that forecast cash flows for 2021 are for the remaining period ending December 31, 2021; and
- FDC expenditures were reduced to $367.5 million to reflect Spartan's planned capital expenditures.

The undiscounted amount of decommissioning obligations acquired pursuant to the Inception Acquisition is estimated to be approximately $5.9 million ($10.3 million inflated at 2%). The fair value of decommissioning obligations acquired of $1.8 million was estimated by discounting the inflated cost estimates using a "credit-adjusted risk-free rate" of 7.0% on the closing date. The obligations acquired were subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 2.1% on March 18, 2021, resulted in an increase in the present value of decommissioning obligations acquired by $3.9 million and a corresponding increase recorded directly to PP&E.

The fair value of PP&E and resulting deferred income tax asset and gain on acquisition are highly sensitive to the discount rate used in the FVLCD calculation. Holding all other assumptions constant, if the discount rate increased by 1% (or decreased by 1%):

- the fair value of PP&E would decrease by $6.6 million (increase by $7.0 million);
- the deferred income tax asset would increase by $1.5 million (decrease by $1.6 million); and
- the gain on acquisition would decrease by $5.1 million (increase by $5.4 million).

The Company incurred $0.5 million of transaction costs related to the Inception Acquisition which were recognized as an expense during the year ended December 31, 2021.

The Consolidated Statements of Net Income and Comprehensive Income for the year ended December 31, 2021 includes the results of operations for the Inception Acquisition from the closing date until December 31, 2021. Specifically, Spartan's net income for the period ended December 31, 2021, includes $37.8 million of revenue (after royalties) and $29.6 million of operating income generated from the Inception Acquisition for the period from March 18 to December 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $50.4 million and $39.0 million, respectively, for the year ended December 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

c) Simonette Acquisition

On March 18, 2021, Spartan acquired certain crude oil and natural gas assets located primarily in the Simonette area of northwest Alberta for total consideration of $20.5 million after closing adjustments. The gross purchase price was comprised of the issuance of 1,493,180 common shares and $17.2 million of cash, before closing adjustments. Adjustments to the cash purchase price were approximately $2.5 million between the effective date of January 1, 2021 and closing. The fair value of the common share consideration was $5.8 million based on Spartan's closing share price of $3.88 per common share on March 18, 2021.

Spartan assessed the property acquisition and determined it to constitute a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the closing date:

(CA$ thousands)	**March 18, 2021**
Cash consideration, after closing adjustments	14,659
Common share consideration	5,794
Total consideration	**20,453**
Exploration and evaluation assets	3,053
Property, plant and equipment	35,577
Decommissioning obligations	(18,177)
Fair value of net assets acquired	**20,453**

The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement), calculated using the present value of the expected future cash flows after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on the acquired oil and gas reserves, which was prepared for the vendor by an independent qualified reserve evaluator as of October 1, 2020. The cash flow estimates derived from the independent reserve report were internally updated by Spartan to reflect the following changes to key assumptions as of March 18, 2021:

- the long-term forecast for commodity prices and foreign exchange rates was revised based on an average of the forecasts published by three independent qualified reserve evaluators, current as of the acquisition date;
- mechanical update of the reserves database to March 18, 2021, such that forecast cash flows for 2021 are for the remaining period ending December 31, 2021;
- FDC expenditures were reduced to $212.0 million to be more representative of Spartan's planned capital expenditures for the acquired assets, which included removing locations with no proved reserves and removing locations beyond five years; and
- the timing of FDC expenditures was deferred by one year to reflect Spartan's anticipated drilling program.

The undiscounted amount of decommissioning obligations acquired pursuant to the Simonette Acquisition is estimated to be approximately $35.5 million ($49.9 million inflated at 2%). The fair value of decommissioning obligations acquired of $18.2 million was estimated by discounting the inflated cost estimates using a "credit-adjusted risk-free rate" of 7.0% on the closing date. The obligations acquired were subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 2.1% on March 18, 2021, resulted in an increase in the present value of decommissioning obligations acquired by $17.0 million and a corresponding increase recorded directly to PP&E.

The Consolidated Statements of Net Income and Comprehensive Income for the year ended December 31, 2021 includes the results of operations for the Simonette Acquisition starting from the closing date. Specifically, Spartan's net income for the year ended December 31, 2021, includes $30.2 million of revenue (after royalties) and $18.6 million of operating income generated from the Simonette Acquisition for the period from March 18 to December 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $39.4 million and $24.0 million, respectively, for the year ended December 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

d) Velvet Acquisition

On August 31, 2021, Spartan closed the acquisition of Velvet, a privately held light-oil Montney producer with operations primarily in the Gold Creek, Karr and Pouce Coupe areas of northwest Alberta. The Velvet Acquisition was completed pursuant to an exempt take-over bid whereby Spartan acquired all issued and outstanding shares of Velvet in consideration for $355.9 million of cash and the issuance of 2,986,782 common shares. The common shares issued pursuant to the Velvet Acquisition are subject to escrow, releasable in one-sixth increments beginning one month following the closing date and continuing every month thereafter. The fair value of the common share consideration was $13.2 million based on Spartan's closing share price of $4.43 per common share on August 31, 2021.

The Velvet Acquisition constitutes a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the closing date:

(CA$ thousands)	**August 31, 2021**
Cash consideration	355,879
Common share consideration	13,231
Total consideration	**369,110**
Fair value of net assets acquired (1)	
Net working capital deficit (2)	(33,137)
Indebtedness repaid on closing date	(352,488)
Derivative financial instrument liability, net	(94,203)
Exploration and evaluation assets	60,757
Property, plant and equipment	753,167
Right-of-use assets	4,364
Lease obligations	(4,435)
Decommissioning obligations	(10,370)
Deferred income tax asset	134,459
Fair value of net assets acquired	**458,114**
Gain on acquisition (1)	**(89,004)**

(1) The fair values of identifiable assets and liabilities acquired and resulting gain on acquisition are based on management's best estimates based on information available at the time of preparing these Financial Statements. The reader is cautioned that future revisions to these estimates over the measurement period (one year from the closing date of the acquisition) could result in a material change from the amounts reported herein.

(2) The balance of accounts receivable acquired is net of a provision for expected credit losses of approximately $0.4 million.

Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $89.0 million at the time of the acquisition. The gain is primarily attributed to significant tax pools by acquiring the corporate entity. Velvet's unused tax pools were estimated to be $1.3 billion on the acquisition date, of which approximately half are non-capital losses. The unused tax losses and deductible temporary differences resulted in a deferred income tax asset of $177.9 million, net of a deferred income tax liability on taxable temporary differences of $43.4 million. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Based on forecast cash flows in the Velvet reserves report, Spartan expects the properties to generate sufficient taxable income in the future to utilize the deductions from the resource pools which became successored upon the acquisition of control by Spartan. Spartan also expects to generate sufficient taxable income corporately to utilize the non-capital losses prior to expiry in years 2026 to 2040.

The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement), calculated using the present value of the expected future cash flows after-tax. The projected cash flows used in the FVLCD calculation were derived from a report on the acquired oil and gas reserves, which was prepared for the vendor by an independent qualified reserve evaluator as of July 1, 2021. The cash flow estimates derived from the independent reserve report were internally updated to be more representative of Spartan's planned capital expenditures for the acquired assets.

The undiscounted amount of decommissioning obligations acquired pursuant to the Velvet Acquisition is estimated to be approximately $21.0 million ($30.3 million inflated at 2%). The fair value of decommissioning obligations acquired of $10.4 million was estimated by discounting the inflated cost estimates using a "credit-adjusted risk-free rate" of 6.8% on the closing date. The obligations acquired were subsequently remeasured in accordance with the Company's accounting policy, whereby decommissioning obligations are discounted using a "risk-free rate". Remeasurement of the decommissioning obligations acquired at a risk-free rate of 1.8% on August 31, 2021, resulted in an increase in the present value of decommissioning obligations acquired by $11.3 million and a corresponding increase recorded directly to PP&E.

The fair value of PP&E and resulting deferred income tax asset and gain on acquisition are highly sensitive to the discount rate used in the FVLCD calculation. Holding all other assumptions constant, if the discount rate increased by 1% (or decreased by 1%):

- the fair value of PP&E would decrease by $34.4 million (increase by $37.2 million);
- the deferred income tax asset would increase by $7.9 million (decrease by $8.6 million); and
- the gain on acquisition would decrease by $26.5 million (increase by $28.7 million).

The Company incurred $2.8 million of transaction costs related to the Velvet Acquisition which were recognized as an expense during the year ended December 31, 2021.

The Consolidated Statements of Net Income and Comprehensive Income for the year ended December 31, 2021 includes the results of operations for the Velvet Acquisition starting from the closing date. Specifically, Spartan's net income for the year ended December 31, 2021, includes $148.8 million of revenue (after royalties) and $129.4 million of operating income generated from the Velvet Acquisition for the period from August 31 to December 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $329.7 million and $238.7 million, respectively, for the year ended December 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

e) Ferrier Acquisition

On September 3, 2021, Spartan acquired the issued and outstanding securities of two arms-length private entities for cash consideration of $37.5 million, or $35.8 million net of positive working capital (the "Ferrier Acquisition"). The assets acquired primarily include producing wells in the Ferrier area of Alberta, adjacent to the Company's core properties in the Deep Basin.

The Ferrier Acquisition constitutes a business combination in accordance with IFRS 3. The table below summarizes the estimated fair value of the identifiable assets acquired and liabilities assumed on the closing date:

(CA$ thousands)	**September 3, 2021**
Cash consideration	**37,500**
Net working capital surplus	1,659
Exploration and evaluation assets	460
Property, plant and equipment	43,972
Decommissioning obligations	(341)
Deferred income tax liability	(5,136)
Fair value of net assets acquired (1)	**40,614**
Gain on acquisition (1)	**(3,114)**

(1) The fair values of identifiable assets and liabilities acquired and resulting gain on acquisition are based on management's best estimates based on information available at the time of preparing these Financial Statements. The reader is cautioned that future revisions to these estimates over the measurement period (one year from the closing date of the acquisition) could result in a material change from the amounts reported herein.

The net assets acquired were recorded at their estimated fair value on the acquisition date of $40.6 million, as outlined in the table above. The fair value of PP&E acquired was estimated based on FVLCD methodology (Level 3 fair value measurement), calculated using the present value of the expected future cash flows after-tax derived from a report on the acquired oil and gas reserves. A gain of $3.1 million was recognized on the Ferrier Acquisition and is attributed to the distressed nature of the transaction which was completed through a court supervised restructuring process under the *Companies' Creditors Arrangement Act* (Canada). In the fourth quarter of 2021, Spartan acquired an additional corporate entity for nominal consideration which held the tax pools related to the assets acquired through the Ferrier Acquisition. The fair value of the tax pools is reflected as a reduction in the deferred tax liability acquired.

The Consolidated Statements of Net Income and Comprehensive Income for the year ended December 31, 2021 includes the results of operations for the Ferrier Acquisition starting from the closing date. Specifically, Spartan's net income for the year ended December 31, 2021, includes $5.3 million of revenue (after royalties) and $3.7 million of operating income generated from the Ferrier Acquisition for the period from September 3 to December 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $16.4 million and $11.3 million, respectively, for the year ended December 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

f) Other Acquisitions

During 2021, Spartan completed strategic tuck-in acquisitions in its core areas at Gold Creek, Karr, Simonette and Willesden Green, collectively the "Other Acquisitions".

- On January 14, 2021, the Company acquired all of the issued and outstanding shares of two private companies for total consideration of $8.2 million (the "January 2021 Acquisition"). The acquired assets primarily include non-producing crude oil and natural gas properties in Spartan's new core development area in the Alberta Montney and tax pools. The January 2021 Acquisition does not meet the definition of a business and has been accounted for under IFRS 3 as an asset acquisition. Spartan had an unrecognized deferred tax asset of $41.8 million on initial recognition of the January 2021 Acquisition in addition to the recognized deferred tax asset of $8.5 million.
- On March 5, 2021, Spartan closed an acquisition of producing crude oil and natural gas assets located at Willesden Green, Alberta, for cash consideration of $5.2 million after closing adjustments (the "Willesden Green Acquisition").
- On May 21, 2021, the Company acquired all of the issued and outstanding shares of Canoe Point Energy Ltd. ("Canoe") for total consideration of $1.5 million (the "Canoe Acquisition"). Canoe held Montney acreage in Spartan's core area at Karr, Alberta. Certain officers and directors of Spartan were also shareholders of Canoe, with ownership and control over 48% of the Canoe Shares (note 21). The Canoe Acquisition constitutes a "related party transaction" and was recorded at the exchange amount on the closing date comprised of 306,271 common shares valued at $4.80 per common share, based on the closing price of Spartan's common shares on the TSXV on the closing date of the acquisition.
- On June 4, 2021, Spartan closed an acquisition of undeveloped acreage located in the Gold Creek area for cash consideration of $0.1 million.
- On June 17, 2021, Spartan closed an acquisition of Montney acreage as well as interests in production behind pipe located in the Gold Creek and Simonette areas of Alberta for cash consideration of $10.0 million after closing adjustments (the "Gold Creek Acquisition").
- On October 1, 2021 the Company closed an acquisition of undeveloped acreage in the Gold Creek area for cash consideration of $0.3 million in addition to an asset exchange of undeveloped acreage.

Spartan assessed the Other Acquisitions and determined the Willesden Green Acquisition and Gold Creek Acquisition to constitute business combinations in accordance with IFRS 3 and the PP&E acquired was valued using FVLCD methodology (Level 3 fair value measurement). The January 2021 Acquisition, Canoe Acquisition and the other acquisitions of undeveloped land do not meet the definition of a business combination and have been accounted for under IFRS 3 as asset acquisitions. The table below summarizes the aggregate total consideration and estimated fair value of the identifiable assets acquired and liabilities assumed on the respective closing dates:

(CA$ thousands)	**Total**
Cash consideration, after closing adjustments	15,934
Common share consideration	9,380
Total consideration	**25,314**
Net working capital	129
Exploration and evaluation assets	10,844
Property, plant and equipment	8,998
Decommissioning obligations	(3,104)
Deferred income tax asset	8,447
Fair value of net assets acquired	**25,314**

7. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets consist primarily of undeveloped land and seismic. The following table reconciles the change in carrying value during the years:

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**2,538**	349
Additions	**18,140**	1,302
Acquisitions (note 6)	**82,277**	895
Transfers to property, plant and equipment (note 8)	**(262)**	-
Expired mineral leases (1)	**(97)**	(8)
Balance, end of year	**102,596**	2,538

(1) The amount of expired mineral leases expensed is presented in "depletion, depreciation and impairment" expense.

Spartan assessed its E&E assets for indicators of potential impairment as at December 31, 2021 and concluded there are no indicators of impairment.

8. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of D&P and corporate assets. D&P assets include the Company's interests in developed crude oil and natural gas properties, as well as interests in facilities and pipelines.

The following tables reconcile the movements in the cost and accumulated depletion, depreciation and impairment ("DD&I") during the years:

Property, plant and equipment, at cost

(CA$ thousands)	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2019	14,031	48	14,079
Additions	15,184	334	15,518
Acquisitions (note 6)	204,119	175	204,294
Dispositions	-	(59)	(59)
Decommissioning discount rate adjustment	57,303	-	57,303
Changes in decommissioning cost estimates (note 10)	(6,130)	-	(6,130)
Balance at December 31, 2020	**284,507**	**498**	**285,005**
Additions (1)	170,407	683	171,090
Acquisitions (note 6)	951,690	-	951,690
Dispositions	(58)	(30)	(88)
Transfers from E&E (note 7)	262	-	262
Decommissioning discount rate adjustment (note 10)	36,874	-	36,874
Changes in decommissioning cost estimates (note 10)	5,208	-	5,208
Balance at December 31, 2021	**1,448,890**	**1,151**	**1,450,041**

(1) During 2021, the Company capitalized $1.7 million of general and administrative expenses and $0.3 million of share based compensation directly related to development activities (2020 – nil).

(CA$ thousands)

Accumulated DD&I	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2019	5,090	23	5,113
Depletion and depreciation	19,876	79	19,955
Impairment	2,998	-	2,998
Balance at December 31, 2020	**27,964**	**102**	**28,066**
Depletion and depreciation	94,235	261	94,496
Balance at December 31, 2021	**122,199**	**363**	**122,562**

Net carrying value	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2020	256,543	396	256,939
Balance at December 31, 2021	**1,326,691**	**788**	**1,327,479**

FDC expenditures required to develop total proved plus probable reserves in the amount of $3.0 billion are included in the depletion calculation for D&P assets for the year ended December 31, 2021 ($417.3 million at December 31, 2020). The increase in estimated FDC costs of $2.6 billion reflects the acquisitions (note 6) partly offset by capital spending during the year.

Impairment of PP&E

Spartan assessed each of its CGUs for indicators of potential impairment as at December 31, 2021 and concluded there are no indicators of impairment (or reversals of previously recognized impairments). The Company recognized an impairment loss of $3.0 million on a non-core property in the first quarter of 2020. This impairment has not been reversed.

9. LEASES

The Company has various lease contracts in place for compression equipment, facilities, office buildings and vehicles. Spartan's lease obligations and corresponding right-of-use ("ROU") assets are recognized initially based on the present value of the remaining lease payments, except for certain short term leases which have been charged to general and administrative expenses or operating expenses, as appropriate depending on the nature of the lease, in the Consolidated Statements of Net Income and Comprehensive Income.

RIGHT-OF-USE ASSETS

The following table reconciles the change in the Company's ROU assets for the year ended December 31, 2021. ROU assets are depreciated on a straight-line basis over the term of the lease.

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Right-of-use asset, at cost		
Balance, beginning of year	**51,438**	-
Additions	**7,579**	796
Acquisitions (note 6)	**5,412**	50,642
Lease modification	**(172)**	-
Balance, end of year	**64,257**	51,438
Accumulated depreciation		
Balance, beginning of year	**4,175**	-
Depreciation expense	**8,293**	4,175
Balance, end of year	**12,468**	4,175
Right-of-use asset, net carrying value	**51,789**	47,263

LEASE LIABILITIES

As at December 31, 2021, the present value of the Company's total lease liability is $54.8 million, of which approximately $10.2 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Lease liabilities		
Balance, beginning of year	**49,766**	-
Additions	**7,579**	796
Acquisitions (note 6)	**5,483**	50,642
Lease payments	**(10,774)**	(3,392)
Financing cost (note 17)	**2,914**	1,720
Lease modification	**(172)**	-
Balance, end of year	**54,796**	49,766
Expected to be settled within one year	**10,206**	6,853
Expected to be settled beyond one year	**44,590**	42,913

A contractual maturity of the undiscounted payments due under the Company's lease agreements is provided in note 4 of these Financial Statements.

Short term leases

The Company has short term leases in place for vehicles and equipment with lease terms less than twelve months. The total amount expensed in respect of short-term leases was approximately $2.6 million during the year ended December 31, 2021 (December 31, 2020 - $0.3 million).

10. DECOMMISSIONING OBLIGATIONS

Decommissioning liabilities arise as a result of the Company's net ownership interests in crude oil and natural gas assets including well sites, processing facilities and infrastructure. The following table provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**98,087**	7,665
Obligations incurred	**1,872**	591
Obligations acquired (note 6)	**33,792**	27,207
Discount rate adjustment on obligations acquired (note 6)	**36,874**	70,409
Obligations disposed	**(103)**	(139)
Obligations settled	**(2,069)**	(1,429)
Obligations settled through government grant (1)	**(2,261)**	(203)
Changes in discount rate	**(5,565)**	(2,174)
Changes in estimates	**8,901**	(4,547)
Accretion (note 17)	**2,317**	707
Balance, end of year	**171,845**	98,087
Expected to be settled within one year	**3,614**	2,833
Expected to be settled beyond one year	**168,231**	95,254

(1) Funding earned through the Alberta provincial government Site Rehabilitation Program is recognized as "other income" in the Consolidated Statements of Net Income and Comprehensive Income during the year ended December 31, 2021 and 2020.

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2021, the total undiscounted amount of the estimated cash flows required to settle the obligation is $161.1 million ($83.5 million as of December 31, 2020), of which, Spartan expects to incur approximately $72.1 million over the next 20 years, $86.3 million in 20 to 50 years, and the residual thereafter. Based on an inflation rate of 2.0%, the estimated undiscounted future cash flows required to settle the obligation is $249.0 million at December 31, 2021 (December 31, 2020 – $128.3 million). Changes in estimates during 2021 resulted in a net increase in the carrying amount of decommissioning obligations by $8.9 million.

As at December 31, 2021, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.7% (1.2% at December 31, 2020). The increase in risk-free interest rate reflects an improved economic outlook and recovery of long-term Canadian benchmark bond yields compared to 2020. The increase in discount rate resulted in a decrease in the carrying amount of decommissioning obligations by $5.6 million as at December 31, 2021 compared to December 31, 2020.

11. LONG-TERM DEBT

As at December 31, 2021, total long-term debt is comprised of bank debt drawn under the Credit Facility and indebtedness under second lien term facility. The balance of long-term debt is presented net of unamortized issue costs and prepaid interest on bankers' acceptances.

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Bank debt	**245,550**	-
Second lien term facility	**150,000**	-
Unamortized issue costs and prepaid interest	**(7,986)**	-
Long-term debt	**387,564**	**-**

a) Bank debt

The Company has a senior secured revolving credit facility with a syndicate of financial institutions, co-lead by National Bank of Canada ("NBC") and Canadian Imperial Bank of Commerce ("CIBC"), along with ATB Financial ("ATB"), The Toronto-Dominion Bank ("TD"), Bank of Montreal ("BMO"), and Canadian Western Bank ("CWB") (collectively, the "Lenders"). CIBC, TD, and BMO joined the syndicate effective upon closing of the Velvet Acquisition on August 31, 2021, at which time the existing credit facility was amended and restated to, among other things, increase the aggregate commitment amount from $100.0 million to $450.0 million (the "Credit Facility"). The Credit Facility is comprised of extendible revolving credit facilities consisting of a $50.0 million operating facility and a $400.0 million syndicated facility.

As at December 31, 2021, Spartan had $245.6 million of bank debt outstanding under the Credit Facility. In addition, the Company has issued approximately $22.5 million of undrawn standby letters of credit which reduce the remaining borrowing capacity available under the operating facility.

The Credit Facility has a revolving period of 364 days, extendible annually at the request of the Company, subject to approval of the Lenders. If not extended, the facilities will automatically convert to a term loan and all outstanding obligations will be repayable one year after the expiry of the revolving period. The borrowing base will be subject to semi-annual redeterminations occurring by May 31st and by November 30th of each year, based upon the Company's annual independent engineering report or updates thereto. Notwithstanding the foregoing, the first scheduled review of the borrowing base will be completed by May 31, 2022. The Credit Facility will also be subject to redetermination upon, among other things, the liability management rating of the Company falling below 2.0 or disposing of material properties. The Credit Facility is secured by a first fixed and floating charge debenture over all the Company's assets in the amount of $1.0 billion and a general assignment of book debts. Repayments of principal are not required until the maturity date, provided that the borrowings do not exceed the authorized borrowing base and the Company is in compliance with all covenants, representations and warranties.

The Company is subject to certain financial covenants under the amended Credit Facility which include:

(i) for the period commencing from August 31, 2021 and ending May 31, 2022, the Company's net debt to cash flow ratio shall not exceed 2.0 to 1.0; and

(ii) for so long as the following covenants applies to the Term Facility (hereinafter defined):
(A) the maximum funded debt to EBITDA (Earnings Before Taxes, Interest, Depreciation and Amortization, as defined in the credit agreement and below), calculated quarterly, shall not exceed 2.5 to 1.0; and
(B) the asset coverage ratio of the Company shall not be less than 1.5 to 1.0, calculated annually.

The Credit Facility also includes other standard business operating covenants, including but not limited to limitations on acquisitions and dispositions, distributions, dividends and hedging arrangements.

Covenant Description(1)		**December 31, 2021**
Liability management rating (2)	minimum ratio 2.0 to 1.0	**8.90**
Net debt to cash flow (3)(4)	maximum ratio 2.0 to 1.0	**1.03**
Funded debt to EBITDA (3)(4)	maximum ratio 2.5 to 1.0	**0.82**
Asset coverage ratio (5)	minimum ratio 1.5 to 1.0	**2.65**

(1) The covenants do not have standardized meanings under IFRS and are calculated in accordance with the definitions in the credit agreements, as described further below.

(2) Environmental liability management rating governing conventional upstream oil and gas wells, facilities, and pipelines for such jurisdiction, as determined in accordance with the rules and regulations of each applicable material jurisdiction and its energy regulator for the period.

(3) The net debt used in the covenant calculation primarily includes long-term debt and working capital. Net debt excludes derivative financial instrument assets and liabilities which are not due and owing at the calculation date and the majority of lease liabilities. Funded debt is equal to the net debt excluding working capital.

(4) The definition of cash flow is generally equivalent to the Company's funds from operations less the principal portion of lease payments for the calculation period. EBITDA is defined as the cash flow, plus cash taxes and cash interest expense to the extent deducted in determining net income. The definitions of cash flow and EBITDA are generally on a 12-month trailing basis, subject to adjustment for certain acquisitions or dispositions in excess of a threshold amount to give effect to the transaction as if it occurred at the beginning of the calculation period, among other potential adjustments.

(5) The asset coverage ratio is an annual covenant calculated as the proved developed producing reserves of the Company (before income tax, discounted at 10%), as evaluated by an independent third party engineering report and evaluated on strip commodity pricing as at December 31, 2021, divided by the balance of funded debt (footnote 3).

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 1.75% up to bank prime plus 5.25%, depending upon the Company's then current net debt to cash flow ratio ranging from less than 0.5 times to greater than 4.5 times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available at the Canadian Dollar Offered Rate plus bank stamping fees which fluctuate based on a pricing grid and range from 2.75% up to 6.25%, depending upon the Company's then current net debt to cash flow ratio ranging from less than 0.5 times to greater than 4.5 times. The Company incurs standby fees on the undrawn facility which also fluctuate based on the pricing grid and range from 0.69% up to 1.56%.

b) Second lien term facility

On August 31, 2021, the Company established a $150.0 million non-revolving term facility (the "Term Facility"). The Term Facility is a single drawdown facility made available solely to finance the Velvet Acquisition and has a sixty-month term maturing on August 31, 2026. The Term Facility is secured on a second-priority basis to the Credit Facility and is subject to annual reviews. The principal amount is repayable in scheduled monthly instalments starting on September 1, 2024, being the 37th month, at an amortization rate of 7.5% per annum. The Company has the option to prepay the outstanding balance under the Term Facility at any time after February 26, 2022, provided that if repayment occurs before August 31, 2024, the Company shall pay all interest and fees that would have otherwise been payable up to the 36th month. The Term Facility bears interest at a floating annual interest rate of bank prime plus 5.25%, payable monthly, and is subject to an annual review fee of 0.5%, payable annually. Covenants include the same asset coverage ratio and funded debt to EBITDA financial covenants as the Credit Facility, as described above.

c) LC Facility

In January 2022, the Company entered into a new demand letter of credit facility (the "LC Facility") which provides Spartan with $25 million of additional credit capacity to issue letters of credit. The letters of credit may be issued for general corporate purposes and are limited to a term of one year from the date of issuance. Letter of credit obligations, when incurred, will be repayable on demand.

d) Movements in long-term debt

The following table reconciles movements in long-term debt during the years ended December 31, 2021 and 2020:

(CA$ thousands)	**December 31, 2021**	December 31, 2020
Balance, beginning of year	**-**	-
Advances	**552,550**	60,000
Repayments	**(157,000)**	(60,000)
Issue costs incurred	**(6,772)**	(734)
Amortization of issue costs	**1,065**	224
Change in prepaid interest on bankers' acceptances	**(1,769)**	-
Reclassification of unamortized issue costs (1)	**(510)**	510
Bank debt, end of year	**387,564**	-

(1) Unamortized issue costs were temporarily reclassified on the Consolidated Statements of Financial Position to prepaid expenses and deposits because there was no bank debt outstanding at December 31, 2020.

12. CONVERTIBLE PROMISSORY NOTE

On March 18, 2021, Spartan issued a $50.0 million unsecured non-interest bearing convertible promissory note in connection with the Inception Acquisition (note 6). Under the original terms of the agreement, the Convertible Note had a five-year term and was convertible, in whole or in part, anytime after two years at Spartan's sole discretion, with the conversion price calculated based on the greater of (i) the 10-day volume weighted average trading price immediately preceding delivery of a conversion notice by the Company to the noteholder, and (ii) $7.67 per common share.

On September 29, 2021, the Convertible Note was converted into 5,882,353 common shares of Spartan pursuant to an amending agreement between Spartan and the noteholder, whereby the terms of the Convertible Note were amended allowing for early conversion at a conversion price of $8.50 per common share (see also, note 21). The Convertible Note was cancelled upon conversion.

The Convertible Note was measured at fair value through profit or loss and was revalued based on Spartan's closing share price at the end of each reporting period (Level 2 fair value measurement). The fair value of the Convertible Note increased from $25.3 million on the issue date to $30.9 million on the conversion date, resulting in a loss of approximately $5.6 million during the year. The fair value increased due to appreciation of the Company's share price from $3.88 on the issue date to $5.26 per common share on September 29, 2021.

The following table summarizes the change in the principal amount and carrying value of the Convertible Note during the year:

(CA$ thousands)	**Principal Amount**	**Carrying Value**
Balance at December 31, 2020	-	-
Issued on acquisition (note 6)	50,000	25,293
Change in fair value	-	5,648
Conversion to common shares	(50,000)	(30,941)
Balance at December 31, 2021	**-**	**-**

13. SHARE CAPITAL

On March 4, 2020, the shareholders of the Company approved a consolidation of common shares on the basis of a ratio of one-hundred (100) pre-consolidation common shares for each post-consolidation common share (the "Share Consolidation"). The Share Consolidation was completed on June 1, 2020. All references to common shares, subscription receipts, warrants and stock options in these Financial Statements are reflected on a post-consolidation basis for the comparative period. Effective September 1, 2021 Spartan graduated to the TSX and concurrently delisted its shares from the Toronto Stock Exchange Venture.

a) Authorized

The Company is authorized to issue an unlimited number of common shares, an unlimited number of preferred shares, and an unlimited number of special shares, each without par value. The preferred shares may be issued in series, with the directors determining the terms of the preferred shares on a series-by-series basis.

b) Issued and outstanding

The following table summarizes the change in common shares issued and outstanding. There are no preferred shares or special shares outstanding as of December 31, 2021 (December 31, 2020 – nil).

	Number of common shares (000s)	Amount ($ thousands)
Balance at December 31, 2019	26,106	45,748
Private Placements	32,000	64,000
Issue costs, net of deferred tax ($441)	-	(1,461)
Issued for cash on exercise of warrants	120	120
Transfer value attributed to warrants exercised	-	74
Balance at December 31, 2020	**58,226**	**108,481**
Equity offerings:		
Bought-deal prospectus offerings	**40,953**	**195,000**
Non-brokered private placement	**6,250**	**25,000**
Flow-through private placement	**10,977**	**54,005**
Deferred premium on flow-through shares	**-**	**(10,098)**
Issued pursuant to acquisitions (note 6)	**30,523**	**120,494**
Issued on conversion of convertible promissory note (note 12)	**5,882**	**30,941**
Issued for cash on exercise of warrants	**270**	**270**
Transfer value attributed to warrants exercised	**-**	**166**
Issued for cash on exercise of stock options	**133**	**400**
Transfer value attributed to stock options exercised	**-**	**168**
Issue costs, net of deferred tax ($2,281)	**-**	**(7,635)**
Balance at December 31, 2021	**153,214**	**517,192**

Prospectus Offerings

On March 8, 2021, the Company completed a bought deal public offering for gross proceeds of $45.0 million, pursuant to which the Company issued 11,250,000 subscription receipts of Spartan at a price of $4.00 per subscription receipt. Cash proceeds were released from escrow on March 18, 2021 upon closing of the Inception Acquisition (note 6) and the Non-Brokered Offering (as defined below) and each subscription receipt was exchanged for one common share for no additional consideration. Net proceeds were approximately $42.7 million after underwriting fees and other issue costs.

On August 18, 2021, raised gross proceeds of $150.0 million through a bought deal public offering of 29,703,000 subscription receipts of Spartan at a price of $5.05 per subscription receipt. Cash proceeds were released from escrow on August 31, 2021 and used to partially fund the cash purchase price for the Velvet Acquisition (note 6). Each subscription receipt was exchanged for one common share for no additional consideration. Net proceeds were approximately $144.3 million after underwriting fees and other issue costs.

Non-Brokered Offering

On March 18, 2021, the Company issued to certain institutional investors on a private placement basis: (i) an aggregate of 6,250,000 common shares at a price of $4.00 per share for aggregate gross proceeds of $25.0 million (the "Non-Brokered Private Placement"); and (ii) an aggregate of 10,976,626 flow-through common shares at a price of $4.92 per flow-through share for aggregate gross proceeds of approximately $54.0 million (the "Flow-Through Private Placement" and, together with the Non-Brokered Private Placement, the "Non-Brokered Offering"). Net proceeds of the Non-Brokered Offering were approximately $77.3 million after issue costs.

The implied premium on the flow-through shares was determined to be $10.1 million or $0.92 per flow-through share, relative to the subscription price of $4.00 per share under the concurrent Non-Brokered Private Placement. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company was obligated to incur eligible Canadian development expenses (the “Qualifying Expenditures”) after the closing date and prior to December 31, 2021 in the aggregate amount of not less than the total gross proceeds raised from the Flow-Through Private Placement. As of December 31, 2021, the Company had incurred $54.0 million of Qualifying Expenditures and fully satisfied its commitment (note 20). The deferred premium on flow-through shares was recognized initially as a liability on the Consolidated Statement of Financial Position and was drawn-down in proportion to the Qualifying Expenditures incurred, with $10.1 million recognized in net income during the year ended December 31, 2021.

Private Placements

On May 8, 2020, Spartan completed a non-brokered offering of 29,455,000 subscription receipts (the "Subscription Receipts") at a price of $2.00 per Subscription Receipt for gross proceeds of $58.91 million (the "Subscription Receipt Offering"). Upon closing of the BXE Asset Acquisition on June 1, 2020, the proceeds from the sale of the Subscription Receipts were released from escrow to the Company and Subscription Receipts were exchanged for 29,455,000 common shares for no additional consideration. Concurrently, the Company raised additional gross proceeds of $5.09 million by issuing 2,545,000 common shares at a price of $2.00 per common share (the "Common Share Offering"). The Subscription Receipt Offering and Common Share Offering resulted in aggregate gross proceeds of $64.0 million (together, the "Private Placements"). Net proceeds of the Private Placements were $62.1 million after issue costs.

c) Warrants

The following table summarizes the change in common share purchase warrants issued and outstanding:

	Number of warrants (000s)	Amount ($ thousands)	Average exercise price ($/share)
Balance at December 31, 2019	16,204	9,965	1.00
Warrants exercised	(120)	(74)	(1.00)
Balance at December 31, 2020	**16,084**	**9,891**	**1.00**
Warrants exercised	(270)	(166)	(1.00)
Balance at December 31, 2021	**15,814**	**9,725**	**1.00**

The warrants were issued on December 19, 2019 at a fair value of approximately $10.0 million or $0.61 per warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $1.00 for a period of five years. The warrants became fully vested in June 2020 and will provide aggregate cash proceeds of $15.8 million to the Company, if exercised by the holders.

d) Share based compensation

Stock Options

The Company has a stock option plan under which options to purchase common shares may be granted to officers, directors, employees and consultants. The Board of Directors has approved a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants of the stock option and share award plans. All stock options have a maximum term of five years and the vesting period for each grant is determined at the discretion of the Board of Directors.

The following table summarizes the change in stock options outstanding:

	Number of options (000s)	Average exercise price ($/share)
Balance at December 31, 2019	-	-
Granted (1)	3,495	3.00
Forfeited	(95)	(3.00)
Balance at December 31, 2020	**3,400**	**3.00**
Granted (1)	**1,215**	**4.29**
Exercised	**(133)**	**3.00**
Forfeited	**(124)**	**3.04**
Balance at December 31, 2021	**4,358**	**3.36**

(1) The options granted vest 1/3 per year on the anniversary date of the grant.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions as follows:

	Year ended December 31	
	2021	2020
Risk free interest rate	**0.7%**	0.3%
Expected life (years)	**3.8**	3.5
Expected volatility (1)	**66.2%**	68.0%
Expected dividend yield	**0.0%**	0.0%
Expected forfeiture rate	**1.8%**	4.9%
Average fair value of options granted ($/share)	**2.06**	1.41

(1) Spartan has estimated the expected volatility over the life of the option based on a peer group average for intermediate oil and gas companies. A peer group average was used because the Company's historical share price volatility prior to completion of the BXE Asset Acquisition is not expected to be representative of future volatility.

The following table summarizes information regarding stock options outstanding at December 31, 2021:

Exercise price ($/share)	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$2.92 - $4.00	3,147	3.4	3.00	982	3.00
$4.01 - $5.00	1,098	4.2	4.09	2	4.08
$5.01 - $6.00	14	4.4	5.55	-	-
$6.01 - $6.31	99	4.8	6.31	-	-
Total	**4,358**	**3.6**	**3.36**	**984**	**3.01**

The volume weighted average trading price of the Company’s common shares on the TSX (TSXV prior to September 1, 2021) for the year ended December 31, 2021 was $5.02 (December 31, 2020 $2.91).

e) Share awards

The Company has a share award incentive plan, pursuant to which the Company may grant restricted share awards (“RSA”) and performance share awards (“PSA”) to directors, officers, employees and consultants of the Company. The share awards, being RSAs or PSAs as applicable, granted under the share award incentive plan are intended to be settled through the issuance of common shares upon vesting. The Board of Directors shall not grant new share awards under the plan if the number of shares issuable pursuant to outstanding share awards, when combined with the number of shares issuable pursuant to outstanding stock options granted under the Company's stock option plan, would exceed 10% of the issued and outstanding common shares at the time of the grant.

RSAs granted shall vest as to one-third (1/3) on each of the first, second and third anniversaries of the award date and PSAs shall vest on the third anniversary of the award date, unless otherwise stipulated by the Board or Compensation Committee at the time of granting the Share Award, and subject to earlier vesting in accordance with the terms of the plan.

Prior to the distribution date in respect of any PSA, the Board or Committee shall assess the performance of the Company for the applicable period. The weighting of the individual measures comprising the “Performance Measures” shall be determined by the Board or Committee, as applicable, in its sole discretion having regard to the principal purposes of the Share Award Plan and, upon the assessment of all Performance Measures, the Board or Committee shall determine the “Adjustment Factor” for the applicable period in its sole discretion. The applicable Adjustment Factor may be between a minimum of zero and such maximum as determined by the Board or Committee, provided such maximum shall not exceed 2.0. The number of PSAs which vest on a vesting date is the number of PSAs scheduled to vest on such date multiplied by the Adjustment Factor.

The following table summarizes the change in share awards outstanding:

	Number of PSAs (000s)	Number of RSAs (000s)
Balance at December 31, 2019 and December 31, 2020	**-**	**-**
Granted	**-**	**2,010**
Forfeited	**-**	**(51)**
Balance at December 31, 2021	**-**	**1,959**

(1) The RSAs granted vest 1/3 per year on the anniversary date of the grant.

f) Per share amounts

The table below summarizes the weighted average ("WA") number of common shares outstanding (000's) used in the calculation of net income per share for the years ended December 31, 2021 and 2020:

	Year ended December 31	
(000s)	**2021**	2020
WA common shares outstanding, basic	**115,555**	44,848
Dilutive effect of stock options	**1,057**	-
Dilutive effect of share awards	**1,041**	-
Dilutive effect of warrants	**12,662**	10,555
Dilutive effect of Convertible Note	**3,143**	-
WA common shares outstanding, diluted	**133,458**	55,403
Net income	**334,220**	47,663
$ per common share, basic	**2.89**	1.06
$ per common share, diluted	**2.50**	0.86

The Company uses the treasury stock method to determine the impact of dilutive securities. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted net income per share. The treasury stock method assumes that the proceeds received from the exercise of all potentially dilutive instruments are used to repurchase common shares at the average market price during the year.

In computing diluted net income per share for the previous year ended December 31, 2020, the effect of stock options was excluded as they were not in-the-money based on the volume weighted average trading price of the Company's common shares of $2.91 during 2020. There were no share awards outstanding at December 31, 2020.

14. INCOME TAXES

As at December 31, 2021, total tax pools available to the Company are estimated to be approximately $1.8 billion (December 31, 2020 – $117.5 million), of which approximately half are non-capital losses ("NCLs"). During the year ended December 31, 2021, Spartan closed acquisitions which materially increased the Company's tax pools (note 6).

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting balances within the same tax jurisdiction, are as follows:

(*CA$ thousands*)	Balance Dec 31, 2020	Recognized in net income	Recognized in balance sheet	**Balance Dec 31, 2021**
Derivative financial instruments	721	(7,594)	21,667	**14,794**
Accelerated tax basis depreciation	(36,223)	(44,184)	(49,872)	**(130,279)**
Decommissioning obligations	22,560	9,191	7,773	**39,524**
Leases	576	116	-	**692**
Convertible promissory note	-	5,683	(5,683)	**-**
Share issue costs (1)	395	(764)	2,555	**2,186**
Non-capital losses and other (2)	3,220	(26,567)	239,322	**215,975**
Unrecognized deferred tax asset	-	41,812	(41,812)	**-**
Deferred tax asset (liability)	(8,751)	(22,307)	173,950	**142,892**

(1) Approximately $2.3 million of deferred income taxes were charged directly to equity in respect of $9.9 million of share issue costs incurred.
(2) NCLs expire in years 2032 to 2040.

Under IFRS, deferred income tax assets may only be recognized to the extent that it is probable that future taxable profits will be available against which unused tax losses and deductible temporary differences can be utilized. The Company had an unrecognized deferred tax asset of $41.8 million upon initial recognition of the January 2021 Acquisition (note 6), to which the Company subsequently recognized the full $41.8 million during the year ended December 31, 2021. The Company expects to have sufficient taxable profits in the future in order to utilize its NCLs which expire in years 2032 to 2040 and has recognized the deferred tax asset related to NCLs, net of its deferred tax liability.

The following table reconciles income taxes calculated at the weighted average Canadian statutory rate with the actual provision for income taxes per the Consolidated Statements of Net Income and Comprehensive Income:

	Year ended December 31	
(*CA$ thousands)*	**2021**	2020
Net income before income taxes	**356,527**	41,038
Canadian statutory tax rate	**23.0%**	24.0%
Expected income tax expense	**82,001**	9,849
Increase (decrease) resulting from:		
Non-deductible expenses [(1)]	**1,448**	386
Gain on acquisition	**(29,406)**	(12,708)
Qualifying expenditures on flow-through shares	**12,421**	-
Premium on flow-through shares	**(2,323)**	-
Change in tax rates	**-**	174
True-up tax pools	**(22)**	(121)
Change in unrecognized deferred tax asset	**(41,812)**	(4,205)
Deferred income tax expense (recovery)	**22,307**	(6,625)
Current income tax	**-**	-
Income tax expense (recovery)	**22,307**	(6,625)

(1) Non-deductible expenses primarily relate to share based compensation.

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. Spartan's combined federal and provincial statutory tax rate was 23.0% during the year ended December 31, 2021, compared to 24.0% in the previous comparative year ended December 31, 2020. The federal corporate tax rate is unchanged at 15% throughout 2020 and 2021. On October 20, 2020, new legislation was enacted under Alberta's Recovery Plan which reduced the general corporate rate from 10% to 8% effective July 1, 2020, resulted in an average tax rate of 24.0% for the year ended December 31, 2020.

15. OIL AND GAS SALES, NET OF ROYALTIES

The following table summarizes the composition of Spartan's oil and gas sales revenue by product type:

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Oil and gas sales		
Crude oil	**148,258**	3,304
Natural gas liquids	**183,326**	36,625
Natural gas	**276,558**	56,395
Oil and gas sales	**608,142**	96,324
Royalties	**(66,639)**	(8,874)
Oil and gas sales, net of royalties	**541,503**	87,450

16. PIPELINE TRANSPORTATION REVENUE AND EXPENSES

The pipeline transportation revenue and expense arrangements were assumed through the Velvet Acquisition (note 6). Pipeline transportation revenue represents the margin generated from the Company's buy/sell arrangement with an international oil marketer, where barrels are purchased in Flanagan, Illinois and sold at Cushing, Oklahoma on the Spearhead pipeline. Pipeline transportation expense represents the contracted cost for Spartan to transport its allocated volumes on the Spearhead pipeline, subject to apportionment by the pipeline operator. The table below summarizes the net loss incurred under the contracts during the year:

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Pipeline transportation revenue	**1,380**	-
Pipeline transportation expense	**(3,463)**	-
Net pipeline transportation margin	**(2,083)**	-

Subsequent to year-end, Spartan entered into an agreement with a third party to assign its firm transportation capacity and related obligations under these contracts effective April 1, 2022 (note 22). The assignment reduces the Company's aggregate contractual commitments by $72.3 million (note 20).

17. FINANCING

The following table summarizes the significant components of the Company's financing expenses, which are presented net of financing income in the Consolidated Statements of Net Income and Comprehensive Income:

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Interest and fees on long-term debt	**10,673**	1,291
Financing cost of lease liabilities	**2,914**	1,720
Accretion of decommissioning obligations	**2,317**	707
Financing expenses	**15,904**	3,718
Interest income	**(405)**	(94)
Financing	**15,499**	3,624

18. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Accounts receivable	**(76,266)**	(20,246)
Prepaid expenses and deposits	**(3,575)**	(1,481)
Other current assets	**(6,800)**	-
Accounts payable and accrued liabilities	**142,822**	33,209
Non-cash working capital acquired (note 6)	**(59,603)**	-
Foreign exchange	**(27)**	-
Change in non-cash working capital	**(3,449)**	11,482
Relating to:		
Operating activities	**(18,078)**	(1,385)
Financing activities	**(6)**	98
Investing activities	**14,635**	12,769
Change in non-cash working capital	**(3,449)**	11,482
Cash payments in respect of:		
Interest and fees on long-term debt	**12,084**	943
Income taxes	**-**	-

19. CAPITAL MANAGEMENT

Spartan's capital management objectives are to maintain a flexible capital structure in order to respond to changes in economic conditions, execute on strategic opportunities throughout the business cycle, meet its financial obligations, and fund current and future settlements of decommissioning obligations. The Company seeks to create long-term shareholder value by prioritizing profitability over production growth, as well as investing in projects that are expected to strengthen its overall asset portfolio and suite of internally generated prospects.

As at December 31, 2021, the Company's capital structure is comprised of working capital, long-term debt and shareholders' equity. The significant components of the Company's capital structure are summarized below:

(CA$ thousands, except as noted)	**December 31, 2021**	December 31, 2020
Working capital deficit	**133,416**	21,208
Adjusted for current portion of:		
Derivative financial instrument assets	**268**	-
Derivative financial instrument liabilities	**(52,783)**	(2,063)
Lease liabilities	**(10,206)**	(6,853)
Adjusted Working Capital deficit (1)	**70,695**	12,292
Long-term debt	**387,564**	-
Net Debt (2)	**458,259**	12,292
Total shareholders' equity	**886,649**	137,540

(1) "Adjusted Working Capital" is calculated as current assets less current liabilities, excluding derivative financial instruments and lease liabilities. As at December 31, 2021 and December 31, 2020, Adjusted Working Capital includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, other current assets, accounts payable and accrued liabilities and the current portion of decommissioning obligations.

(2) Net Debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities. Spartan uses Net Debt as a capital management measure of the Company's financial position and liquidity.

The capital intensive nature of Spartan's operations may create a working capital deficiency during periods with high levels of capital investment. During the fourth quarter of 2021, Spartan's exploration and development capital expenditures were $115.7 million compared to $14.0 million in the fourth quarter of 2020, driving the increase in working capital deficit year-over-year. The Company maintains sufficient unused bank credit lines to satisfy such working capital deficiencies. As at December 31, 2021, the Company's bank debt of $245.6 million together with approximately $22.5 million of issued but undrawn letters of credit represented 60% of the authorized borrowing amount available under Spartan's $450.0 million Credit Facility.

During 2021, the Company's primary sources of funds were $279.8 million of cash provided by operating activities, $264.1 million of net proceeds from brokered and non-brokered equity financings (note 13), a new five-year $150.0 million Term Facility (note 11), supplemented by bank debt under the Credit Facility with a borrowing base of up to $450.0 million (note 11). In addition, Spartan received $0.7 million of cash proceeds on the exercise of stock options and warrants during the year (note 13).

Cash provided by operating activities of $279.8 million for the period December 31, 2021 was used to fund the Company's exploration and development capital expenditures of $189.0 million, lease principal payments of $7.9 million, and a portion of the cash component of the purchase price for the acquisitions. Total consideration for the acquisitions completed in 2021 was $569.8 million in aggregate, comprised of $424.0 million of cash, $120.5 million of common share consideration, and the issuance the Convertible Note with a fair value of $25.3 million on the acquisition date. In addition, Spartan assumed Net Debt of $387.5 million in connection with the corporate acquisitions of which $352.5 million was repaid on the closing date of the Velvet Acquisition. The balance of the purchase price for the acquisitions and Velvet's debt repayment was funded by equity proceeds and advances under the Term Facility and Credit Facility.

The Company monitors its capital structure and short-term financing requirements using a "Net Debt to Trailing AFF Ratio", which is calculated by Spartan as the Company's Net Debt (calculated above) relative to its "Trailing Adjusted Funds Flow". The reader is cautioned that "Net Debt" and "Adjusted Funds Flow" do not have standardized meanings under IFRS may not be directly comparable to measures of other companies where similar terminology is used. Spartan calculates "Adjusted Funds Flow" by deducting lease payments and adding back transaction costs on acquisitions and the change in non-cash working capital to cash provided by operating activities. Spartan utilizes Adjusted Funds Flow as a key performance measure in the Company's annual financial forecasts and public guidance because it reflects the net cash flow generated from routine business operations. Adjusted Funds Flow is reported net of cash lease payments in the period therefore Spartan believes Adjusted Funds Flow is an appropriate metric to compare relative to its Net Debt which does not include lease liabilities. "Trailing Adjusted Funds Flow" is calculated by annualizing Adjusted Funds Flow for the most recently completed quarter, which is considered more representative of the Company's current financial position than a 12-month trailing measure. Management believes that the Net Debt to Trailing AFF Ratio provides investors with information to understand the Company's liquidity risk and its ability to repay long-term debt and fund future capital expenditures.

Three months ended	**December 31, 2021**	December 31, 2020
Cash provided by operating activities	**147,975**	16,064
Change in non-cash operating working capital	**(8,509)**	2,175
Add back: transaction costs	**(71)**	7
Deduct: lease payments	**(2,369)**	(1,450)
Adjusted Funds Flow for the quarter	**137,026**	16,796
Factor to Annualize	**4**	4
Trailing Adjusted Funds Flow	**548,104**	67,184
Net Debt	**458,259**	12,292
Trailing Adjusted Funds Flow	**548,104**	67,184
Net Debt to Trailing AFF Ratio	**0.8x**	0.2x

As at December 31, 2021, Spartan had Net Debt of $458.3 million, which is approximately 0.8 times the Company's Trailing Adjusted Funds Flow for the fourth quarter of 2021. The Net Debt to Trailing AFF ratio increased from 0.2 times at December 31, 2020, primarily due to financing of the Velvet Acquisition in the third quarter of 2021. The Company reduced its Net Debt by $22.8 million compared to $481.1 million the previous quarter ended September 30, 2021, as cash provided by operating activities exceeded capital expenditures during the fourth quarter.

The Company's existing capital resources are sufficient to satisfy its financial obligations for the next twelve months and Spartan is well positioned to execute on its short and longer term growth strategy. The Company's exploration and development capital expenditure budget for 2022 will be funded by cash provided by operating activities and may be supplemented by short term advances of bank debt during periods of high capital investment. Spartan plans to use surplus cash provided by operating activities primarily to repay bank debt in 2022. To maintain or adjust its capital structure in the future, the Company may issue new common shares or other equity securities, issue debt, adjust capital expenditures and acquire or dispose of assets.

As at December 31, 2021, the Company is not subject to any externally imposed capital requirements other than the financial covenants under the amended and restated Credit Facility and Term Facility, to which Spartan is in full compliance (note 11).

20. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's contractual commitments as of December 31, 2021:

(CA$ thousands)	2022	2023	2024	2025	2026	Thereafter
Gas transportation (1)	15,985	14,483	12,864	12,723	10,126	15,502
Liquids transportation (2)	40,446	42,200	22,562	11,897	6,064	6,294
NGLs fractionation (3)	1,004	1,324	1,425	1,421	1,421	4,618
Processing fees (4)	10,769	5,302	146	81	-	-
Capital commitments (5)	25,631	42,719	42,719	-	-	-
Total at December 31, 2021	**93,835**	**106,028**	**79,716**	**26,122**	**17,611**	**26,414**
Less: commitments disposed subsequent to year-end (2)	(16,108)	(21,457)	(20,620)	(9,960)	(4,127)	-
Commitments remaining	**77,727**	**84,571**	**59,096**	**16,162**	**13,484**	**26,414**

(1) Spartan has firm transportation commitments on natural gas pipelines in Alberta until October 2029.

(2) Liquids transportation includes $43.8 million (US$34.4 million) related to the Spearhead pipeline commitment and $31.9 million (US$25.1 million) related to the Flanagan South pipeline. Also includes $53.8 million related to upstream oil and natural gas liquids ("NGLs") transportation contracts. The Spearhead and Flanagan South transportation agreements have been assigned to a third party effective April 1, 2022 (see also, Subsequent Events note 22).

(3) NGLs fractionation includes two agreements with two counterparties. The first agreement is for a fractionation fee on the volume of C3+ mix purchased until March 2023. The second agreement is for the delivery of firm volume of C3+ to a fractionation facility until March 2030.

(4) Processing fees includes two agreements with two counterparties. The first agreement is a gas handling agreement at the Wapiti plant for transportation, compression and processing of natural gas until June 2023. The second agreement provides Spartan firm capacity for the gathering and processing of natural gas at the Fourth Creek gas gathering system and Fourth Creek plant until October 2025.

(5) Pursuant to an agreement with an industry partner (note 5), Spartan has committed to drill and tie-in a minimum of 16 wells over a three-year period, with a minimum of 6 wells required to be drilled by the end of 2022, and an additional 5 wells drilled by the end of 2023 and 2024, respectively. The estimated capital commitment is approximately $136.7 million in aggregate over the three year term. As of December 31, 2021, Spartan had drilled three qualifying wells and expects to fully satisfy its commitment for the remaining 13 wells (estimate $111.1 million) with its routine capital expenditure budget for 2022. In the event Spartan does not satisfy its minimum drilling commitments, the Company would be subject to a penalty of $2.1 million per well.

In connection with the Flow-Through Private Placement completed on March 18, 2021 (note 13), the Company has fully satisfied its obligations to incur and renounce Qualifying Expenditures in the aggregate amount of $54.0 million. In accordance with the subscription agreements, Spartan renounced the Qualifying Expenditures to subscribers as follows: $6.5 million effective October 31, 2021; and $47.5 million effective December 31, 2021.

A contractual maturity of the Company's financial liabilities and undiscounted lease payments is provided in note 4.

Litigation

In the normal course of the Company's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes with partners or other stakeholders. The outcome of outstanding, pending, or future proceedings cannot be predicted with certainty and may be determined to have an adverse affect on the Company's future operations or financial condition. As of the date of these Financial Statements, the Company has no material litigation or claims outstanding that have not already been reflected in these Financial Statements.

21. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

During the previous year ended December 31, 2020, Spartan had one wholly owned subsidiary, Winslow Resources Inc. Winslow was vertically amalgamated effective January 1, 2021, to form a single corporate entity under the name of Spartan Delta Corp.

With respect to corporate acquisitions (note 6) completed during the year ended December 31, 2021, the majority of the corporate entities acquired by Spartan were amalgamated during the year. As at December 31, 2021, Spartan had three wholly owned subsidiaries. Balances and transactions between Spartan and these entities have been eliminated on consolidation. On January 1, 2022, two subsidiaries were vertically amalgamated with Spartan. Spartan has one wholly owned subsidiary remaining as of the date hereof, Inception General Partner Inc.

b) Related party transactions

During the year ended December 31, 2021, the Company incurred $2.9 million of legal fees to a law firm where the corporate secretary of the Company is a partner (2020 – $2.1 million). The fees are primarily transaction costs related to the Acquisitions and share issue costs incurred in respect of the equity financings completed during 2021. Approximately $0.1 million of legal fees are included in the balance of accounts payable and accrued liabilities as at December 31, 2021.

Acquisition of Canoe Point Energy Ltd.

On May 21, 2021, Spartan acquired all of the issued and outstanding shares of Canoe (the "Canoe Shares"). The total purchase price of $1.5 million was satisfied through the issuance of 306,271 common shares of Spartan and the assumption of net debt of $0.1 million (note 6).

Certain officers and directors of Spartan were also shareholders of Canoe, with ownership and control over 48% of the Canoe Shares. All other parties to the Canoe Acquisition are arm's length to the Company. The Canoe Acquisition constituted a "related party transaction" and was recorded at the exchange amount. The Canoe Acquisition was approved by those directors of the Company who are independent with respect to the acquisition.

c) Conversion of promissory note due to related party

The holder of the Convertible Note (note 12), ARETI Energy S.A., is a related party under IAS 24 Related Party Disclosures. ARETI became a related party upon closing of the Inception Acquisition (note 6), however Spartan and ARETI were arm's length parties prior thereto.

On September 29, 2021, the Convertible Note with a principal amount of $50.0 million was converted into 5,882,353 common shares of Spartan pursuant to an amending agreement between Spartan and ARETI, whereby the terms of the Convertible Note were amended allowing for early conversion at a conversion price of $8.50 per common share. Prior to the amendment, the Convertible Note was convertible on or after March 18, 2023 and the minimum conversion price was $7.67 per common share, as more particularly described in note 12. The Convertible Note was cancelled upon conversion and had a carrying value of approximately $30.9 million immediately prior to conversion.

As at December 31, 2021, ARETI owns and controls (through direct ownership or its affiliates) approximately 19.6% of the Company's total common shares outstanding. As part of the pre-acquisition agreement between Inception and Spartan, the Company entered into a nomination rights agreement providing ARETI with the right to nominate one or two directors to Spartan's board of directors, subject to acquiring and maintaining certain minimum shareholding requirements. Steve Lowden and Elliot Weissbluth were appointed to Spartan's board of directors concurrent with closing of the Inception Acquisition on March 18, 2021.

d) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of a company. The Company defines its key management personnel as its officers, board of directors and corporate secretary. The following table summarizes compensation paid or payable to key management personnel during the years ended December 31, 2021 and 2020.

	Year ended December 31	
(CA$ thousands)	**2021**	2020
Salaries and benefits	**5,467**	3,081
Directors fees	**138**	75
Share based compensation (1)(2)	**4,560**	983
Total key management compensation	**10,165**	4,139

(1) During 2021, key management personnel were granted 1,180,800 share awards and 984,100 stock options with an exercise price of $4.08 per share.

(2) During 2020, key management personnel were granted 1,935,700 stock options with an exercise price of $3.00 per share.

22. SUBSEQUENT EVENTS

Disposition of Spearhead and Flanagan South pipeline commitments

In January 2022, Spartan entered into an agreement with a third party to assign its firm transportation capacity and related obligations on the Spearhead and Flanagan South pipelines effective April 1, 2022. Pursuant to the assignment agreement, Spartan will receive cash proceeds of US$0.5 million and has reduced the Company's aggregate contractual commitments by $72.3 million (note 20). The contracts were assumed through the Velvet Acquisition and were not integral to Spartan's core business operations.

Commodity price risk management contracts

In February 2022, Spartan entered into derivative financial contracts to fix the NYMEX Henry Hub natural gas price at US$4.54/mmbtu on notional volumes of 30,000 mmbtu/d from April 1 to October 31, 2022. The Company also contracted to fix the U.S. dollar exchange rate at $1.27 on a notional US$3 million per month. Together, these contracts effectively convert the Company's unmatched AECO basis positions outstanding as of December 31, 2021, into AECO fixed price swaps at a Canadian dollar equivalent price of approximately $4.10 per gigajoule on 30,000 mmbtu/d (approximately 31,650 GJ/d) through summer 2022.

Additionally, the Company entered into financial collars on NYMEX Henry Hub natural gas, with a floor price of US$3.75/mmbtu and a ceiling of US$8.25/mmbtu, on notional volumes of 30,000 mmbtu/d from November 1, 2022 to March 31, 2023.