



SPARTAN
DELTA CORP.

**SPARTAN DELTA CORP.
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**



MANAGEMENT'S REPORT

Calgary, Alberta
March 2, 2023

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, 2022.

[signed] "Fotis Kalantzis"

President and Chief Executive Officer

[signed] "Geri Greenall"

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, 2022 and 2021, 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, 2022 and 2021;
- the consolidated statements of 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 flow 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, 2022. These matters were

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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
<p data-bbox="267 577 876 672">The impact of crude oil and natural gas reserves on net development and production (“D&P”) assets</p> <p data-bbox="267 682 876 808"><i>Refer to note 2 – Basis of preparation, note 3 – Significant accounting policies and note 8 – Property, plant and equipment to the consolidated financial statements.</i></p> <p data-bbox="267 829 876 1081">The Company had \$1,524 million of net D&P assets as at December 31, 2022. Depletion, depreciation and impairment (“DD&I”) expense for the D&P assets was \$194 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.</p> <p data-bbox="267 1102 876 1354">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).</p> <p data-bbox="267 1375 876 1627">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.</p>	<p data-bbox="876 577 1513 640">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="876 661 1513 1684" style="list-style-type: none"><li data-bbox="876 661 1513 1228">• 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:<ul data-bbox="876 1249 1513 1684" style="list-style-type: none"><li data-bbox="876 1249 1513 1480">– 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.<li data-bbox="876 1491 1513 1585">– Future prices were reasonable by comparing them to other reputable third party industry forecasts.<li data-bbox="876 1596 1513 1684">– Recalculated the unit-of-production rates used to calculate DD&I expense for the D&P assets.



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 2, 2023

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(CA\$ thousands)</i>	[Note]	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents		124,399	1,245
Accounts receivable	[4]	140,413	96,741
Prepaid expenses and deposits		8,011	5,104
Other current assets	[5]	2,340	6,800
Derivative financial instruments	[4]	33,845	268
Total current assets		309,008	110,158
Other non-current assets	[6]	-	7,500
Exploration and evaluation assets	[7]	104,120	102,596
Property, plant and equipment	[8]	1,524,272	1,327,479
Right-of-use assets	[9]	42,119	51,789
Deferred income tax asset	[14]	119,956	142,892
Total assets		2,099,475	1,742,414
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	176,855	176,971
Dividends payable	[13]	85,704	-
Derivative financial instruments	[4]	818	52,783
Lease liabilities	[9]	9,450	10,206
Decommissioning obligations	[10]	5,800	3,614
Total current liabilities		278,627	243,574
Derivative financial instruments	[4]	-	11,806
Long-term debt	[11]	145,180	387,564
Lease liabilities	[9]	36,045	44,590
Decommissioning obligations	[10]	122,802	168,231
Total liabilities		582,654	855,765
SHAREHOLDERS' EQUITY			
Share capital	[13]	553,647	517,192
Warrants	[13]	-	9,725
Contributed surplus		24,400	16,340
Retained earnings		938,774	343,392
Total shareholders' equity		1,516,821	886,649
Total liabilities and shareholders' equity		2,099,475	1,742,414
Commitments and contingencies	[21]		

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

Approved on behalf of the Board of Directors:

[signed] "Richard McHardy"
Richard McHardy, Director

[signed] "Donald Archibald"
Donald Archibald, Director

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

<i>(CA\$ thousands, except per share amounts)</i>	[Note]	Year ended December 31	
		2022	2021
Revenue			
Oil and gas sales	[15]	1,464,467	608,142
Royalties	[15]	(159,877)	(66,639)
Oil and gas sales, net of royalties		1,304,590	541,503
Pipeline transportation	[16]	1,364	1,380
Processing and other		9,306	9,317
		1,315,260	552,200
Loss on derivative financial instruments	[4]	(30,917)	(28,357)
Expenses			
Operating		233,250	115,011
Transportation		74,620	34,738
Pipeline transportation	[16]	1,718	3,463
General and administrative		25,535	21,345
Share based compensation	[13]	12,329	6,257
Financing	[17]	31,603	15,499
Depletion, depreciation and impairment	[7,8,9]	211,129	102,886
		590,184	299,199
Other income (expenses)			
Write down of other non-current assets	[22]	(7,500)	-
Gain on sale of assets		2,101	468
Gain on acquisition	[6]	-	127,854
Transaction costs	[6]	(143)	(4,002)
Other income	[18]	20,310	2,801
Premium on flow-through shares	[13]	-	10,098
Change in fair value of convertible note	[12]	-	(5,648)
Foreign exchange gain	[4]	1,098	312
		15,866	131,883
Net income before income taxes		710,025	356,527
Deferred income tax expense	[14]	28,939	22,307
Net income and comprehensive income		681,086	334,220
Net income per share			
Basic	[13]	4.36	2.89
Diluted	[13]	3.88	2.50

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

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

<i>(CA\$ thousands)</i>	[Note]	Share capital	Warrants	Contributed surplus	Retained earnings	Total
Balance at December 31, 2021		517,192	9,725	16,340	343,392	886,649
Net income and comprehensive income		-	-	-	681,086	681,086
Common shares issued, net of costs:						
Warrants exercised	[13]	25,539	(9,725)	-	-	15,814
Stock options exercised	[13]	8,144	-	(2,525)	-	5,619
Issue costs, net of deferred tax	[13]	(9)	-	-	-	(9)
Share awards released on vesting	[13]	2,781	-	(2,781)	-	-
Dividends declared	[13]	-	-	-	(85,704)	(85,704)
Share based compensation expense		-	-	13,366	-	13,366
Balance at December 31, 2022		553,647	-	24,400	938,774	1,516,821
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 promissory 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		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

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

**SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW**

<i>(CA\$ thousands)</i>	[Note]	Year ended December 31	
		2022	2021
Operating activities			
Net income		681,086	334,220
Items not affecting cash:			
Unrealized (gain) loss on derivatives	[4]	(51,567)	391
Unrealized foreign exchange gain	[4]	(168)	(22)
Share based compensation		12,329	6,257
Financing	[17]	3,515	2,317
Depletion, depreciation and impairment		211,129	102,886
Write down of other non-current assets	[22]	7,500	-
Gain on acquisition	[6]	-	(127,854)
Gain on sale of assets		(2,101)	(468)
Other income	[18]	(5,252)	(2,261)
Premium on flow-through shares	[13]	-	(10,098)
Change in fair value of convertible note	[12]	-	5,648
Deferred income tax expense	[14]	28,939	22,307
Settlement of acquired derivative liabilities	[4]	(45,781)	(33,410)
Settlement of decommissioning obligations	[10]	(5,018)	(2,069)
Change in non-cash working capital	[19]	(39,240)	(18,078)
Cash provided by operating activities		795,371	279,766
Financing activities			
Advances of long-term debt, net of costs	[11]	327,216	544,564
Repayments of long-term debt	[11]	(569,600)	(157,000)
Issue of common shares, net of costs	[13]	21,421	264,759
Lease payments	[9]	(9,087)	(7,860)
Change in non-cash working capital	[19]	(91)	(6)
Cash provided by (used in) financing activities		(230,141)	644,457
Investing activities			
Exploration and evaluation assets	[7]	(17,255)	(18,140)
Property, plant and equipment	[8]	(416,902)	(170,835)
Acquisitions	[6]	(6,463)	(423,972)
Dispositions	[6]	1,280	453
Corporate acquisitions, repayment of debt	[6]	-	(352,488)
Corporate acquisitions, cash acquired	[6]	-	24,634
Change in non-cash working capital	[19]	(2,963)	14,635
Cash used in investing activities		(442,303)	(925,713)
Net change in cash and cash equivalents		122,927	(1,490)
Foreign exchange on cash and cash equivalents		227	49
Cash and cash equivalents, beginning of year		1,245	2,686
Cash and cash equivalents, end of year		124,399	1,245

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

**SPARTAN DELTA CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022**

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 22), however the Company does not have any material subsidiaries as at December 31, 2022. 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.

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 2, 2023.

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 subsidiary.

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 of the Financial Statements.

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 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.

It was determined that the Bellatrix Corporate Acquisition (hereinafter defined and described in note 6) constitutes an asset acquisition as opposed to a business combination. The impact of accounting for the Bellatrix Corporate Acquisition as an asset acquisition as opposed to a business combination under IFRS 3 resulted in recognition of a

SPARTAN DELTA CORP.
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deferred tax asset of \$143.9 million relating to the tax pools acquired, with a corresponding deferred tax recovery of \$137.9 million in excess of the \$6.0 million consideration paid (note 14).

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 (“E&E”) assets and property, plant and equipment (“PP&E”) 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 capital (“FDC”) are used to calculate depletion. Reserves are used in measuring the fair value less costs of disposal (“FVLCD”) of 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 E&E assets to PP&E.

Spartan’s reserves have been evaluated by independent qualified reserves evaluators as at December 31, 2022 and December 31, 2021 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 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.

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iv. Exploration and evaluation assets

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.

As at December 31, 2022 and 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 the greater of its FVLCD or value in use ("VIU"). 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. As at December 31, 2022 and 2021, Spartan concluded there were no indicators of impairment or reversals.

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.

In the current business environment of rising interest rates and high inflation, assumptions for the discount rate and inflation rate applied in the calculation had a significant impact on the carrying amount of decommissioning obligations as at December 31, 2022. In particular, the increase in risk-free discount rate from 1.7% at December 31, 2021 to 3.3% at December 31, 2022, resulted in a decrease to the present value by \$44.9 million. The Company expects above average inflation to persist over the next 3 to 5 years, however thereafter the long-term average inflation rate is expected to return back to the Bank of Canada's target rate of 2.0% over the restoration period. The estimated future costs and carrying amount of decommissioning obligations is based on a weighted average inflation rate of 2.3% at December

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31, 2022, compared to the flat estimate of 2.0% as of December 31, 2021. The increase in inflation rate contributed to an increase in the carrying amount by approximately \$7.8 million at December 31, 2022.

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, 2022 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. As at December 31, 2022, Spartan has recognized a deferred income tax asset of \$120.0 million on the Consolidated Statement of Financial Position and has an estimated \$2.1 billion of available tax pools (~60% non-capital losses). 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 2022 and 2021, Spartan applied judgement in respect of recognized and unrecognized deferred tax assets. 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 acquired and immediately recognized a deferred tax asset of \$143.9 million during the year ended December 31, 2022 in connection with the Bellatrix Corporate Acquisition (note 6), with a corresponding deferred income tax recovery of \$137.9 million in excess of the \$6.0 million consideration paid. In the prior year, Spartan had an unrecognized deferred tax asset of \$41.8 million upon initial recognition of an acquisition completed in January 2021 (note 6). 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 ended December 31, 2021, resulting in a reduction of deferred income tax expense by \$41.8 million for the year ended December 31, 2021.

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

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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, 2022, Spartan had one wholly owned subsidiary (note 22). The Company's subsidiary is not individually or, in aggregate, material to the Financial Statements. The financial statements of the Company's subsidiary is 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, dividends payable, 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.

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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 costs for which the underlying mineral lease or other asset has expired, or is expected to expire prior to development, are expensed to profit or loss.

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 Statements of Net Income and Comprehensive Income in the period incurred.

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

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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 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

PP&E 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:

- 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 VIU. 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 Statements 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.

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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.

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i) Revenue recognition

Spartan generates revenue primarily from the sale of crude oil, condensate, natural gas, and natural gas liquids (“NGLs”). Revenue is recognized at the point in time when control of the product has been transferred to the customer and performance obligations have been satisfied. This is generally met when the customer obtains legal title to the product and physical delivery at a delivery point has taken place. Revenue is measured based on the consideration specified in the contracts the Company has with its customers. The transaction price under the contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms.

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 Statements 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.

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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. In a transaction to acquire a corporation that is not a business combination, and for which the only significant item acquired is tax loss carryforwards or other tax attributes that do not arise as a result of temporary differences from assets or liabilities recognised in the acquisition, the initial recognition exemption in IAS 12 *Income Taxes* does not apply. Accordingly, the Company recognizes the deferred tax asset to the extent that it is probable the tax loss carryforwards can be utilized, which qualifies for recognition at the time of acquisition as a recovery of deferred income tax expense.

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 allows for the granting of equity-settled awards in connection with the Company's stock option plan, restricted share awards ("RSA") and performance share awards ("PSA") to directors, officers, employees and consultants of the Company in connection with the Company's share award incentive plan. Details regarding the share award incentive plan are provided in note 13(e). The share award incentive 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.

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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 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.

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, 2023. Spartan will continue to evaluate the impact of the pronouncements which will be adopted on their respective effective dates and are not expected to have a material impact on the financial statements.

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.

IAS 1, Presentation of Financial Statements

In October 2022, the IASB amended IAS 1 Presentation of Financial Statements ("IAS 1") to address the classification of liabilities with covenants as current or non-current in the Statements of Financial Position. The amendment is applicable to periods beginning on or after January 1, 2024.

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4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at December 31, 2022, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, dividends payable, 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. 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 solely 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 (defined herein). 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:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Oil and gas marketers	129,853	90,807
Joint venture partners	10,560	5,934
Accounts receivable	140,413	96,741

During the year ended December 31, 2022, sales to one oil and gas marketer represented more than 10% of revenue. Sales to this marketer account for approximately 38% of total oil and gas sales revenue (before royalties) in the year ended December 31, 2022. During the previous year ended December 31, 2021, sales to three marketers accounted for approximately 27%, 13% and 10% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are primarily large, credit-worthy institutions.

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

<i>(CA\$ thousands)</i>	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at December 31, 2022	135,140	2,953	1,306	1,014	140,413
Balance at December 31, 2021	93,490	1,633	381	1,237	96,741

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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, 2022 and expects the accounts to be collectible, except for approximately \$1.6 million of accounts receivable which are provided for in the expected credit loss provision (\$1.1 million at December 31, 2021).

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, 2022 include accounts payable, dividends payable, derivative financial instrument liabilities and long-term debt. In addition, the Company has financial commitments in respect of lease liabilities (note 9).

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, 2022, Spartan had \$150.0 million outstanding under its second lien term facility and an undrawn revolving credit facility with an authorized borrowing amount of \$450 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, 2022:

<i>(CA\$ thousands)</i>	1 year	2 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	176,855	-	-	-	176,855
Dividends payable (note 13)	85,704	-	-	-	85,704
Derivative financial instrument liabilities	818	-	-	-	818
Credit Facility ⁽¹⁾ (note 11)	1,271	-	-	-	1,271
Second lien term facility ⁽²⁾ (note 11)	18,300	50,297	145,144	-	213,741
Undiscounted lease liabilities ⁽³⁾ (note 9)	11,880	22,926	14,051	3,152	52,009
Total	294,828	73,223	159,195	3,152	530,398

(1) The Credit Facility (defined in note 11) is undrawn as at December 31, 2022. The table above includes estimated standby charges to be incurred on the \$450 million authorized borrowing base to May 30, 2023, being the end of the current revolving period.

(2) Includes principal and estimated interest and fee payments on the Term Facility (defined in note 11). 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. Anytime after August 31, 2024, Spartan may repay the Term Facility without penalty. Early repayment of the Term Facility on September 1, 2024 would result in a reduction of future interest and fee payments by approximately \$33 million.

(3) As at December 31, 2022, the present value of the Company's total lease liability is \$45.5 million, of which \$9.5 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.

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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, 2022, 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.

The table below summarizes average prices and notional volumes contracted under the Company's outstanding financial derivative contracts as at December 31, 2022:

Period	Natural Gas ⁽¹⁾							
	NYMEX Henry Hub Swaps ⁽²⁾		NYMEX Henry Hub Collars ⁽³⁾⁽⁴⁾		NYMEX – AECO 7A Basis Swaps – Short ⁽²⁾		AECO 7A Swaps ⁽⁵⁾	
	Volume mmbtu/d	US\$/mmbtu	Volume mmbtu/d	Floor – Ceiling US\$/mmbtu	Volume mmbtu/d	US\$/mmbtu	Volume GJ/d	CA\$/GJ
Q1 2023	26,389	\$2.83	30,000	\$3.75 - \$8.25	85,000	(\$1.13)	-	-
Q2 2023	85,000	\$4.74	-	-	85,000	(\$1.09)	55,000	\$4.00
Q3 2023	85,000	\$4.74	-	-	85,000	(\$1.08)	55,000	\$4.00
Q4 2023	85,000	\$4.74	-	-	85,000	(\$1.08)	18,533	\$4.00
Asset ⁽⁶⁾ (Liability)	\$10.9 million		\$0.6 million		\$11.7 million		\$10.7 million	

(1) The prices and volumes in this table represent averages for contracts represented in the respective periods.

(2) NYMEX swaps are settled based on the last day of settlement of monthly futures contracts.

(3) Represent collar positions with a floor price (long put) and a price ceiling (short call) for Spartan.

(4) Floor and ceiling represent the average strike price of the long put and short call positions.

(5) AECO 7A swaps are settled the first day of the month based on a weighted average of the previous month's fixed price trades.

(6) The above table includes the financial derivative asset (liability) for the Company's commodity contracts but does not include the derivative financial instrument liability of \$0.8 million at December 31, 2022, related to foreign exchange risk management contracts.

During the fourth quarter of 2022, Spartan entered into derivative financial contracts to fix the NYMEX Henry Hub natural gas price at US\$5.02/mmbtu on notional volumes of 75,000 mmbtu per day from April 1 to December 31, 2023. The Company also contracted to fix the U.S. dollar exchange rate at \$1.34 on a notional US\$9.0 million per month over the same period. Together, with an existing NYMEX Henry Hub swap of 10,000 mmbtu per day at US\$2.65/mmbtu, these contracts effectively converted the Company's AECO basis positions into AECO fixed price swaps at a Canadian dollar equivalent price of approximately \$4.65/GJ on 85,000 mmbtu per day (approximately 89,650 GJ per day) for the period of April 1 to December 31, 2023. The Company also entered into derivative financial contracts to fix the AECO 7A price at \$4.00/GJ, on notional volumes of 55,000 GJ per day from April 1 to October 31, 2023, locking in summer 2023 natural gas pricing. All crude oil contracts matured as of June 30, 2022 and the Company's oil production remains unhedged as at December 31, 2022.

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 and commodity sales. 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

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on U.S. dollar denominated working capital balances outstanding at December 31, 2022 and at December 31, 2021 was not significant.

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

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Realized foreign exchange gain	930	290
Unrealized foreign exchange gain	168	22
Foreign exchange gain	1,098	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. During the first quarter of 2022, the Company contracted to fix the U.S. dollar exchange rate at \$1.27 on a notional US\$3.0 million per month from April 1 to October 31, 2022. During the fourth quarter of 2022, the Company contracted to fix the U.S. dollar exchange rate at \$1.34 on a notional US\$9.0 million per month from April 1, 2023 to December 31, 2023. Additionally, as at December 31, 2022, 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 \$0.8 million at December 31, 2022 (December 31, 2021 – \$0.1 million).

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, 2022, an increase (decrease) in the market rate of interest by 50 basis points would increase (decrease) annualized interest expense by approximately \$0.8 million.

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 asset of \$33.0 million at December 31, 2022, compared to a net liability of \$64.3 million at December 31, 2021. The change in the Company's derivative financial instruments assets and liabilities is summarized below:

<i>(CA\$ thousands)</i>	Current	Long-term	Total
Balances at December 31, 2022:			
Derivative financial instrument assets	33,845	-	33,845
Derivative financial instrument liabilities	(818)	-	(818)
Net asset	33,027	-	33,027
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)
Reconciliation of net change during the year:			
Unrealized gain recognized in net income			51,567
Settlement of acquired derivative liabilities ⁽¹⁾			45,781
Total change in derivative financial instruments			97,348

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- (1) The Company acquired a derivative financial instrument liability with a fair value of \$94.2 million on August 31, 2021 (note 6), of which \$33.4 million was subsequently settled during the year ended December 31, 2021 and \$45.8 million was settled during the year ended December 31, 2022.

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, 2022:

<i>(CA\$ thousands)</i>	Change in price / differential	Positive movement	Negative movement
NYMEX Henry Hub ("HH")	+/- US\$ 0.25 per mmbtu	(9,602)	9,602
NYMEX HH-AECO 7A Basis ⁽¹⁾	+/- US\$ 0.10 per mmbtu	(4,188)	4,188
AECO 7A	+/- US\$ 0.25 per GJ	(3,972)	3,972
US\$/CA\$ exchange rate	+/- \$ 0.05	(4,050)	4,050

- (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 gains and losses on the Company's derivative financial instruments during the years ended December 31, 2022 and 2021:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Realized loss	(82,484)	(27,966)
Unrealized gain (loss)	51,567	(391)
Loss on derivative financial instruments	(30,917)	(28,357)

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.

Balance as at December 31, 2022	Carrying Value ("CV")		
	Gross	Netting	Net CV
Financial assets			
Derivative financial instruments	46,880	(13,035)	33,845
Financial liabilities			
Derivative financial instruments	(818)	-	(818)

Balance as at December 31, 2021	Carrying Value ("CV")		
	Gross	Netting	Net CV
Financial assets			
Derivative financial instruments	268	-	268
Financial liabilities			
Derivative financial instruments	(64,589)	-	(64,589)

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5. OTHER CURRENT ASSETS

In August 2022, the Company entered into an agreement (the "August 2022 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 upon completion of construction in consideration for the purchase price. As of December 31, 2022, Spartan had incurred approximately \$2.3 million of construction costs related to the August 2022 Agreement, which are presented as other current assets on the Consolidated Statements of Financial Position. Instalment payments received under the August 2022 Agreement will be offset by a deferred obligation included in the balance of accounts payable and accrued liabilities until the project is completed and title is transferred, which is expected within twelve months.

Pursuant to the August 2022 Agreement, Spartan committed to drill and tie-in a minimum of 9 wells over a three-year period ending December 31, 2025 (see also, note 21). As of December 31, 2022, Spartan had not yet drilled any qualifying wells and expects to fully satisfy its commitment for the remaining nine wells with its planned capital expenditure budgets for 2023 to 2024. In the event Spartan does not satisfy its minimum drilling commitments, the Company would be subject to a penalty of \$2.8 million per well.

In December 2021, Spartan had entered into a similar agreement to construct infrastructure in its core operating area at Gold Creek, Alberta (the "December 2021 Agreement"), on comparable terms to the above August 2022 Agreement. Spartan incurred \$15.2 million of costs to construct the infrastructure under the December 2021 Agreement, of which \$8.4 million and \$6.8 million was incurred in the years ended December 31, 2022 and 2021, respectively. During the fourth quarter of 2022, title was transferred to the partner upon completion of construction in consideration of \$29.5 million of proceeds, comprised of \$26.0 million of cash and the release of a \$3.5 million liability assumed through the acquisition of Velvet Energy. Upon conveyance of the infrastructure, Spartan recognized a gain of \$14.3 million within other income on the Consolidated Statements of Net Income and Comprehensive Income (note 18). Cash flows associated with the project are presented within cash provided by operating activities.

Pursuant to the December 2021 Agreement, Spartan committed to drill and tie-in a minimum of 16 wells over a three-year period ending December 31, 2024. Spartan fully satisfied the 16 well drilling commitment with routine capital expenditures during the year ended December 31, 2022 and has no further commitments outstanding with respect to the December 2021 Agreement.

6. ACQUISITIONS AND DISPOSITIONS

2022 Acquisitions and Dispositions

a) Bellatrix Corporate Acquisition

On August 9, 2022, Spartan closed the corporate acquisition of Bellatrix Exploration Ltd. ("Bellatrix") through a court supervised process under the *Companies' Creditors Arrangement Act* (the "CCAA") for a cash purchase price of \$6.0 million (the "Bellatrix Corporate Acquisition"). Pursuant to the acquisition, Spartan acquired 1,000 new common shares issued by Bellatrix and all other existing equity securities of Bellatrix were cancelled for no consideration, resulting in Spartan holding 100% of the aggregate issued and outstanding equity securities of Bellatrix. Spartan previously acquired substantially all of Bellatrix's assets for total consideration of \$108.8 million in June 2020, which established the Company's core operating area in the Deep Basin. Following the Bellatrix Corporate Acquisition and reorganization under the CCAA, Bellatrix did not have any significant assets or liabilities remaining except for approximately \$625 million of non-capital loss tax pools which were determined to be available for use by Spartan.

The Bellatrix Corporate Acquisition does not meet the definition of a business combination and has been accounted for under IFRS 3 as an asset acquisition. Spartan recorded a deferred tax asset of \$143.9 million in recognition of the tax pools acquired, with a corresponding deferred income tax recovery of \$137.9 million in excess of the \$6.0 million consideration paid (note 14).

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b) Other Acquisitions and Dispositions

During the year ended December 31, 2022, the Company completed minor property acquisitions for cash consideration of \$0.7 million. The assets acquired primarily include undeveloped land (note 7). Acquisition costs in 2022 are net of \$0.2 million of proceeds from favorable closing adjustments on property acquisitions completed in the previous year. The Company also received \$1.3 million of aggregate cash proceeds on minor property dispositions which resulted in a gain on sale of assets of \$2.1 million as a result of disposing of associated decommissioning liabilities.

2021 Acquisitions

During the previous year ended December 31, 2021, Spartan executed on its acquisitive growth strategy and closed a series of corporate and property acquisitions which established a second core development area targeting the Montney in northwest Alberta. On March 18, 2021, the Company acquired Inception Exploration Ltd. ("Inception") with core assets located at Gold Creek for total consideration of \$121.0 million including net debt (the "Inception Acquisition") and acquired assets located primarily in the Simonette area for \$20.5 million (the "Simonette Acquisition"). 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, for total consideration of approximately \$754.7 million including net debt (the "Velvet Acquisition"). Spartan also completed several smaller tuck-in acquisitions throughout 2021 to build upon the Company's core land holdings in the Alberta Montney and Deep Basin, including an acquisition of producing assets at Ferrier for \$35.8 million, net of working capital, which closed on September 3, 2021 (the "Ferrier Acquisition"). The Inception Acquisition, Simonette Acquisition, Velvet Acquisition and Ferrier Acquisition were determined to constitute business combinations in accordance with IFRS 3.

The following table summarizes the aggregate consideration paid for acquisitions during the year ended December 31, 2021, and the estimated fair value of the net identifiable assets acquired on the respective acquisition dates:

2021 ACQUISITION SUMMARY <i>(CA\$ thousands)</i>	Inception Mar18/21	Simonette Mar18/21	Velvet Aug31/21	Ferrier Sep3/21	Other ⁽⁴⁾ Various	Total 2021
Cash consideration, after adjustments	-	14,659	355,879	37,500	15,934	423,972
Common share consideration	92,089	5,794	13,231	-	9,380	120,494
Convertible promissory note	25,293	-	-	-	-	25,293
Total consideration	117,382	20,453	369,110	37,500	25,314	569,759
Net working capital ⁽³⁾	(3,620)	-	(33,137)	1,659	129	(34,969)
Indebtedness repaid at closing	-	-	(352,488)	-	-	(352,488)
Net (debt) surplus assumed or repaid ⁽³⁾	(3,620)	-	(385,625)	1,659	129	(387,457)
Derivative financial instrument liability, net	-	-	(94,203)	-	-	(94,203)
Other non-current assets (note 22)	7,500	-	-	-	-	7,500
Exploration and evaluation assets	7,163	3,053	60,757	460	10,844	82,277
Property, plant and equipment ⁽¹⁾	109,976	35,577	753,167	43,972	8,998	951,690
Right-of-use assets	1,048	-	4,364	-	-	5,412
Lease liabilities	(1,048)	-	(4,435)	-	-	(5,483)
Decommissioning obligations ⁽²⁾	(1,800)	(18,177)	(10,370)	(341)	(3,104)	(33,792)
Deferred income tax asset ⁽⁴⁾	33,899	-	134,459	(5,136)	8,447	171,669
Fair value of net assets acquired	153,118	20,453	458,114	40,614	25,314	697,613
Gain on acquisition	(35,736)	-	(89,004)	(3,114)	-	(127,854)
Total consideration including net debt ⁽⁵⁾	121,002	20,453	754,735	35,841	25,185	957,216

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- (1) 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 reports on the acquired oil and gas reserves.
- (2) The aggregate fair value of decommissioning obligations acquired of \$33.8 million was estimated by discounting the inflated cost estimates using "credit-adjusted risk-free rates" ranging from 6.1% to 7.0% on the respective closing dates of the acquisitions. Subsequent remeasurement of the decommissioning obligations acquired at a risk-free rate under Spartan's accounting policy resulted in an increase in the present value of decommissioning obligations acquired by \$36.9 million to \$70.7 million in aggregate.
- (3) Net working capital includes cash acquired on corporate acquisitions of \$24.6 million in aggregate. For purposes of this table only, net debt (and the components thereof) is presented as a negative number and the net surplus (and the components thereof) is presented as a positive number.
- (4) Among the various other acquisitions completed in 2021, this column includes the "January 2021 Acquisition" whereby the Company acquired all of the issued and outstanding shares of two private companies for total consideration of \$8.2 million on January 14, 2021. The January 2021 Acquisition was accounted for as an asset acquisition under IFRS 3, with acquired assets consisting of primarily non-producing oil and gas properties in the Alberta Montney and tax pools. In addition to the recognized deferred tax asset of \$8.5 million, Spartan also had an unrecognized deferred tax asset of \$41.8 million on initial recognition of the January 2021 Acquisition, which was subsequently recognized in full through the deferred income tax recovery in 2021 (see also, note 14).
- (5) "Total consideration including net debt" does not have a standardized meaning under IFRS. It is presented here to provide the reader with useful information to understand the total transaction value inclusive of cash, share and debt consideration.

Total consideration for the acquisitions completed during 2021 was \$569.8 million, comprised of: \$424.0 million of cash consideration after closing adjustments; the issuance of 30.5 million common shares valued at \$120.5 million; and the issuance of a convertible promissory note with an acquisition date fair value of \$25.3 million (see note 12). In addition, Spartan assumed net debt of \$387.5 million in connection with the corporate acquisitions. Transaction costs of \$4.0 million in aggregate were expensed in 2021 in respect of acquisitions accounted for as business combinations under IFRS 3.

Spartan recognized gains on certain acquisitions completed during 2021 as the fair value of consideration paid was less than the fair value of the net assets acquired. The total gain of \$127.9 million for the year ended December 31, 2021 includes gains of \$35.7 million on the Inception Acquisition, \$89.0 million on the Velvet Acquisition and \$3.1 million on the Ferrier Acquisition. The gains recognized on the acquisitions of Inception and Velvet are primarily attributed to significant tax pools assumed by acquiring the corporate entities and the resulting deferred income tax assets. The gain on the Ferrier Acquisition is attributed to the distressed nature of the transaction which was completed through a court supervised restructuring process.

The Consolidated Statements of Net Income and Comprehensive Income for year ended December 31, 2021 includes the results of operations for business combinations completed in 2021, starting from the closing date. Specifically, Spartan's net income for the year ended December 31, 2021, includes \$222.1 million of revenue (after royalties) and \$181.3 million of operating income generated from the closing dates 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 all the above noted acquisitions had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately \$435.9 million and \$313.0 million, respectively, for the year ended December 31, 2021 from these acquisitions. 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.

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7. EXPLORATION AND EVALUATION ASSETS

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

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Balance, beginning of year	102,596	2,538
Additions	17,255	18,140
Acquisitions (note 6)	605	82,277
Dispositions	(3)	-
Transfers to PP&E (note 8)	(9,372)	(262)
Expired mineral leases ⁽¹⁾	(6,961)	(97)
Balance, end of year	104,120	102,596

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

Spartan assessed its E&E assets for potential impairment prior to transferring costs to PP&E and as at December 31, 2022, and concluded there are no indicators of impairment. During the year ended December 31, 2022, the Company expensed \$7.0 million of costs associated with mineral leases that expired or are expected to expire (2021 – \$0.1 million).

8. PROPERTY, PLANT AND EQUIPMENT

The Company's PP&E includes development and production assets 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:

PP&E, at cost (CA\$ thousands)	D&P assets	Corporate	Total PP&E
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
Discount rate adjustment on obligations acquired (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
Additions ⁽¹⁾	417,323	616	417,939
Acquisitions ⁽²⁾	(125)	-	(125)
Dispositions	(125)	(48)	(173)
Transfers from E&E (note 7)	9,372	-	9,372
Changes in decommissioning cost estimates (note 10)	(35,515)	-	(35,515)
Balance at December 31, 2022	1,839,820	1,719	1,841,539

(1) During the year ended December 31, 2022, the Company capitalized \$3.0 million of general and administrative expenses and \$1.0 million of share based compensation directly related to development activities. For the year ended December 31, 2021, the Company capitalized \$1.7 million of general and administrative expenses and \$0.3 million of share based compensation.

(2) The year ended December 31, 2022 includes \$0.1 million of PP&E acquisition costs net of \$0.2 million of proceeds from favourable closing adjustments on property acquisitions completed in the previous year (see note 6).

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Accumulated DD&I (CA\$ thousands)	D&P assets	Corporate	Total PP&E
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
Depletion and depreciation	194,281	431	194,712
Dispositions	-	(7)	(7)
Balance at December 31, 2022	316,480	787	317,267

Net carrying value	D&P assets	Corporate	Total PP&E
Balance at December 31, 2021	1,326,691	788	1,327,479
Balance at December 31, 2022	1,523,340	932	1,524,272

FDC expenditures required to develop total proved plus probable reserves in the amount of \$4.0 billion are included in the depletion calculation for D&P assets for the year ended December 31, 2022 (\$3.0 billion at December 31, 2021).

Spartan assessed each of its CGUs for indicators of potential impairment as at December 31, 2022 and December 31, 2021, and concluded there are no indicators of impairment or indicators of impairment reversals.

9. LEASES

The Company has various lease contracts in place for compression equipment, facilities, office buildings and vehicles. Spartan's lease obligations and corresponding 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 during the year:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Right-of-use asset, at cost		
Balance, beginning of year	64,257	51,438
Additions	-	7,579
Acquisitions (note 6)	-	5,412
Lease modification	(214)	(172)
Balance, end of year	64,043	64,257
Accumulated depreciation		
Balance, beginning of year	12,468	4,175
Depreciation expense	9,456	8,293
Balance, end of year	21,924	12,468
Right-of-use asset, net carrying value	42,119	51,789

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LEASE LIABILITIES

As at December 31, 2022, the present value of the Company's total lease liability is \$45.5 million, of which approximately \$9.5 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Lease liabilities		
Balance, beginning of year	54,796	49,766
Additions	-	7,579
Acquisitions (note 6)	-	5,483
Lease payments	(11,949)	(10,774)
Financing cost (note 17)	2,862	2,914
Lease modification	(214)	(172)
Balance, end of year	45,495	54,796
Expected to be settled within one year	9,450	10,206
Expected to be settled beyond one year	36,045	44,590

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

The Company has short term leases in place primarily for equipment with contract terms less than twelve months, expensed within operating expenses. The total amount expensed in respect of short-term leases was approximately \$6.2 million during the year ended December 31, 2022 (December 31, 2021 – \$2.6 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:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Balance, beginning of year	171,845	98,087
Obligations incurred	4,352	1,872
Obligations acquired (note 6)	145	33,792
Discount rate adjustment on obligations acquired (note 6)	-	36,874
Obligations disposed	(1,118)	(103)
Obligations settled	(5,018)	(2,069)
Obligations settled through government grant ⁽¹⁾	(5,252)	(2,261)
Changes in discount rate	(44,944)	(5,565)
Changes in estimates	5,077	8,901
Accretion (note 17)	3,515	2,317
Balance, end of year	128,602	171,845
Expected to be settled within one year	5,800	3,614
Expected to be settled beyond one year	122,802	168,231

(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 years ended December 31, 2022 and 2021 (note 18).

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The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at December 31, 2022, the total undiscounted amount of the estimated cash flows required to settle the obligation is \$155.4 million (\$161.1 million as of December 31, 2021), of which, Spartan expects to incur approximately \$86.3 million over the next 20 years, \$67.5 million in 20 to 50 years and the residual thereafter. The estimated inflated undiscounted future cash flows required to settle the obligation is \$265.8 million at December 31, 2022 based on an inflation rate of 2.3% on average over the restoration period (December 31, 2021 – \$249.0 million based on an inflation rate of 2.0%).

As at December 31, 2022, the carrying amount of the decommissioning obligations is based on a risk-free rate of 3.3% (1.7% at December 31, 2021). The increase in discount rate resulted in a decrease in the carrying amount of decommissioning obligations by \$44.9 million as at December 31, 2022 compared to December 31, 2021.

11. LONG-TERM DEBT

As at December 31, 2022, total long-term debt is comprised of bank debt drawn under the revolving credit facility, if any, and indebtedness under the second lien term facility. The balance of long-term debt is presented net of unamortized issue costs and prepaid interest on bankers' acceptances.

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Bank debt	-	245,550
Second lien term facility	150,000	150,000
Unamortized issue costs and prepaid interest	(4,820)	(7,986)
Long-term debt	145,180	387,564

a) Bank debt

The Company has a senior secured revolving credit facility with a syndicate of financial institutions (the "Credit Facility"). The authorized borrowing base available under the Credit Facility is \$450.0 million, comprised of a \$50.0 million operating facility and a \$400.0 million syndicated facility. As at December 31, 2022, the Credit Facility is undrawn.

The Credit Facility has a revolving period of 364 days, maturing May 30, 2023, and may be extended annually at Spartan's option subject to approval of the lenders, with a term-out to May 30, 2024 if not renewed. The borrowing base is subject to semi-annual reviews occurring approximately in May and November of each year and may 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.

During the second quarter of 2022, the Company's lending syndicate completed their annual review and the Credit Facility was renewed on substantially the same terms. Notably, the financial covenant which required Spartan to maintain a net debt to cash flow ratio of less than 2.0 to 1.0 was terminated upon renewal effective May 26, 2022. The November borrowing base review was completed early during the third quarter of 2022 and the next borrowing base review is scheduled to be completed in May 2023.

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

- (i) for so long as the following covenants apply to the Term Facility (hereinafter defined):
 - (A) the maximum funded debt to EBITDA (Earnings Before Interest, Taxes, 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.

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

Covenant Description⁽¹⁾		December 31, 2022	December 31, 2021
Liability management rating ⁽²⁾	minimum ratio 2.0 to 1.0	10.59	8.90
Net debt to cash flow ⁽³⁾⁽⁴⁾⁽⁶⁾	maximum ratio 2.0 to 1.0	not applicable ⁽⁶⁾	1.03
Funded debt to EBITDA ⁽³⁾⁽⁴⁾	maximum ratio 2.5 to 1.0	0.18	0.82
Asset coverage ratio ⁽⁵⁾	minimum ratio 1.5 to 1.0	10.37	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 cash provided by operating activities before changes in non-cash working capital, less the principal portion of lease payments for the calculation period. EBITDA is defined under the Term Facility 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 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, 2022, divided by the balance of funded debt (footnote 3).
- (6) The net debt to cash flow ratio financial covenant was terminated upon renewal of the Credit Facility on May 26, 2022.

Interest is payable monthly for borrowings through direct advances under the Credit Facility. Interest rates fluctuate based on bank prime plus an applicable margin. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available at the Canadian Dollar Offered Rate plus bank stamping fees. The Company incurs standby fees on the undrawn facility which also fluctuate based on the pricing grid.

The Company has a demand letter of credit facility which provides Spartan with \$25.0 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 are repayable on demand. As at December 31, 2022, there is \$2.0 million of issued but undrawn letters of credit under the letter of credit facility.

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 by a \$300 million demand debenture on a second-priority basis to the Credit Facility. 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. Anytime after August 31, 2024, Spartan may repay the Term Facility without penalty. The Term Facility bears a floating interest rate of Canadian 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.

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c) Movements in long-term debt

The following table reconciles movements in long-term debt during the years ended December 31, 2022 and 2021:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Balance, beginning of year	387,564	-
Advances	324,050	552,550
Repayments	(569,600)	(157,000)
Issue costs incurred	(946)	(6,772)
Amortization of issue costs	2,343	1,065
Change in prepaid interest on bankers' acceptances	1,769	(1,769)
Reclassification of unamortized issue costs	-	(510)
Long-term debt, end of year	145,180	387,564

12. CONVERTIBLE PROMISSORY NOTE

On March 18, 2021, Spartan issued a \$50.0 million unsecured non-interest bearing convertible promissory note (the "Convertible Note") in connection with the Inception Acquisition (note 6). The Convertible Note was measured at FVTPL and was revalued based on Spartan's closing share price at the end of each reporting period (Level 2 fair value measurement). On September 29, 2021, the Convertible Note was converted into 5,882,353 common shares of Spartan at a conversion price of \$8.50 per common share. The Convertible Note was cancelled upon conversion.

The following table summarizes the change in the principal amount and carrying value of the Convertible Note during the previous year ended December 31, 2021:

<i>(CA\$ thousands)</i>	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	-	-

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13. SHARE CAPITAL

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. Common shares carry one vote per share and the right to any dividends declared. 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, 2022 (December 31, 2021 – nil).

	Number of common shares (000s)	Amount (\$ thousands)
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
Issued for cash on exercise of warrants	15,814	15,814
Transfer value attributed to warrants exercised	-	9,725
Issued for cash on exercise of stock options	1,736	5,619
Transfer value attributed to stock options exercised	-	2,525
Released upon vesting of restricted share awards	646	2,781
Issue costs, net of deferred tax (\$3)	-	(9)
Balance at December 31, 2022	171,410	553,647

Dividends

During the fourth quarter of 2022, Spartan declared a special cash dividend of \$85.7 million (\$0.50 per common share) payable on January 16, 2023 to eligible shareholders of record on December 15, 2022. Payment of the dividend is subject to shareholders' meeting certain eligibility requirements. Subsequent to December 31, 2022 and as of the date hereof, Spartan has paid \$75.5 million of the dividend to shareholders for which the Company has received the required attestations to confirm eligibility; the remaining balance continues to be accrued as a financial liability.

There were no dividends declared or paid in the previous year ended December 31, 2021.

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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. The deferred premium on flow-through shares was recognized initially as a liability on the Consolidated Statements of Financial Position and was drawn-down in proportion to the Qualifying Expenditures incurred during the previous year. As at December 31, 2021, Spartan had fully satisfied its obligations to incur and renounce eligible Canadian development expenses 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.

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, 2020	16,084	9,891	1.00
Warrants exercised	(270)	(166)	(1.00)
Balance at December 31, 2021	15,814	9,725	1.00
Warrants exercised	(15,814)	(9,725)	(1.00)
Balance at December 31, 2022	-	-	-

The warrants were issued on December 19, 2019 at a fair value of approximately \$10.0 million or \$0.61 per warrant. The warrants became fully vested in June 2020 and each warrant entitled the holder to purchase one common share at an exercise price of \$1.00 for a period of five years from the issue date. During the year ended December 31, 2022, all outstanding warrants were exercised providing aggregate cash proceeds of \$15.8 million to the Company in 2022 (2021 – \$0.3 million).

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d) 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, 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
Granted ⁽¹⁾	799	8.29
Exercised	(1,736)	3.24
Forfeited	(98)	5.19
Balance at December 31, 2022	3,323	4.56

(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	
	2022	2021
Risk free interest rate	1.7%	0.7%
Expected life (years)	3.0	3.8
Expected volatility ⁽¹⁾	60.0%	66.2%
Expected dividend yield	0.0%	0.0%
Expected forfeiture rate	1.1%	1.8%
Average fair value of options granted (\$/share)	3.36	2.06

(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 is not expected to be representative of future volatility due to Spartan's significant growth over the previous three years.

The following table summarizes information regarding stock options outstanding at December 31, 2022:

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	1,701	2.4	3.00	645	3.01
\$4.01 - \$6.00	790	3.2	4.10	70	4.11
\$6.01 - \$8.50	806	4.1	8.01	12	6.31
\$8.51 - \$14.48	26	4.5	12.60	-	-
Total	3,323	3.0	4.56	727	3.17

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The volume weighted average trading price of the Company's common shares on the TSX for the year ended December 31, 2022 was \$12.01. During the year ended December 31, 2021, the volume weighted average trading price of the Company's common shares on the TSX (TSX Venture Exchange prior to September 1, 2021) was \$5.02.

e) Share awards

The Company has a share award incentive plan, pursuant to which the Company may grant RSAs and PSAs 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 new common shares upon vesting for no additional consideration. 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. The vesting period is determined at the discretion of the Board of Directors.

The following table summarizes the change in share awards outstanding:

	Number of PSAs (000s)	Number of RSAs (000s)
Balance at December 31, 2020	-	-
Granted	-	2,010
Forfeited	-	(51)
Balance at December 31, 2021	-	1,959
Granted	-	2,416
Released upon vesting	-	(646)
Forfeited	-	(183)
Balance at December 31, 2022	-	3,546

(1) The majority of RSAs granted vest 1/3 per year on the anniversary date of the grant. During the year ended December 31, 2022, 0.5 million of the 2.4 million RSAs granted have a vesting schedule of 10% vesting on the first anniversary, 30% vesting on the second anniversary and 60% vesting on the third anniversary.

f) Per share amounts

The table below summarizes the weighted average number of common shares outstanding (000's) used in the calculation of net income per share for the years ended December 31, 2022 and 2021:

(000s)	Year ended December 31	
	2022	2021
Weighted average common shares outstanding, basic	156,136	115,555
Dilutive effect of stock options	2,739	1,057
Dilutive effect of share awards	2,362	1,041
Dilutive effect of warrants ⁽¹⁾	14,246	12,662
Dilutive effect of Convertible Note	-	3,143
Weighted average common shares outstanding, diluted	175,483	133,458
Net income	681,086	334,220
\$ per common share, basic	4.36	2.89
\$ per common share, diluted	3.88	2.50

(1) The above dilutive effect of warrants represents the dilutive impact between January 1, 2022 and the actual date of exercise during 2022. As of December 31, 2022, all outstanding warrants have been exercised.

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14. INCOME TAXES

As at December 31, 2022, total tax pools available to the Company are estimated to be \$2.1 billion (December 31, 2021 – \$1.8 billion), of which approximately 60% are non-capital losses (“NCLs”).

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:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Net income before income taxes	710,025	356,527
Canadian statutory tax rate ⁽¹⁾	23.0%	23.0%
Expected income tax expense	163,306	82,001
Increase (decrease) resulting from:		
Non-deductible expenses ⁽²⁾	1,537	1,448
Write down of other non-current assets	1,725	-
Gain on acquisition	-	(29,406)
Qualifying expenditures on flow-through shares	-	12,421
Premium on flow-through shares	-	(2,323)
True-up tax pools	253	(22)
Change in unrecognized deferred tax asset	-	(41,812)
Acquired tax asset recognized in income	(137,882)	-
Deferred income tax expense	28,939	22,307
Current income tax	-	-
Income tax expense	28,939	22,307

(1) The Canadian statutory tax rate per the rate reconciliation represents the average combined federal and provincial corporate tax rate.

(2) Non-deductible expenses primarily relate to share based compensation offset by the deductible value of RSAs released on vesting.

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

<i>(CA\$ thousands)</i>	Balance at Dec 31, 2021	Recognized in net income	Recognized in balance sheet	Balance at Dec 31, 2022
Derivative financial instruments	14,794	(22,390)	-	(7,596)
Accelerated tax basis depreciation	(130,279)	(59,855)	-	(190,134)
Decommissioning obligations	39,524	(9,946)	-	29,578
Leases	692	84	-	776
Share issue costs	2,186	(570)	3	1,619
Non-capital losses and other ⁽¹⁾	215,975	(74,144)	143,882	285,713
Acquired tax asset recognized in income	-	137,882	(137,882)	-
Deferred income tax asset	142,892	(28,939)	6,003	119,956

(1) NCLs expire in years 2035 to 2041.

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<i>(CA\$ thousands)</i>	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	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.

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 recognized a deferred tax asset of \$143.9 million during the current year in connection with the Bellatrix Corporate Acquisition (note 6), with a corresponding deferred income tax recovery of \$137.9 million in excess of the \$6.0 million consideration paid. In the prior year, Spartan had an unrecognized deferred tax asset of \$41.8 million upon initial recognition of an acquisition completed in January 2021 (note 6). The unrecognized deferred tax asset of \$41.8 million was fully recognized in 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 2035 to 2041 and has recognized the deferred tax asset related to NCLs.

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:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Oil and gas sales		
Crude oil	568,076	148,258
Natural gas liquids	333,962	183,326
Natural gas	562,429	276,558
Oil and gas sales	1,464,467	608,142
Royalties	(159,877)	(66,639)
Oil and gas sales, net of royalties	1,304,590	541,503

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16. PIPELINE TRANSPORTATION REVENUE AND EXPENSES

The pipeline transportation revenue and expense arrangements were assumed through the Velvet Acquisition on August 31, 2021 (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.

During the first quarter of 2022, 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. The assignment reduced the Company's aggregate contractual commitments by approximately \$72.3 million (note 21).

The table below summarizes the net loss incurred under the contracts during the years:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Pipeline transportation revenue	1,364	1,380
Pipeline transportation expense	(1,718)	(3,463)
Net pipeline transportation margin	(354)	(2,083)

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:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Interest and fees on long-term debt	25,967	10,673
Financing cost of lease liabilities	2,862	2,914
Accretion of decommissioning obligations	3,515	2,317
Financing expenses	32,344	15,904
Interest income	(741)	(405)
Financing	31,603	15,499

18. OTHER INCOME

The following table summarizes the significant components of the Company's other income presented in the Consolidated Statements of Net Income and Comprehensive Income:

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Government grant (note 10) ⁽¹⁾	5,252	2,261
Gain on construction project (note 5)	14,315	-
Other	743	540
Other income	20,310	2,801

(1) Government grant relates to funding earned through the Alberta provincial government Site Rehabilitation Program for certain abandonment and reclamation projects completed during the years ended December 31, 2022 and 2021 (see note 10).

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19. SUPPLEMENTAL CASH FLOW INFORMATION

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Accounts receivable	(43,672)	(76,266)
Prepaid expenses and deposits	(2,907)	(3,575)
Other current assets	4,460	(6,800)
Accounts payable and accrued liabilities	(116)	142,822
Non-cash working capital acquired (note 6)	-	(59,603)
Foreign exchange	(59)	(27)
Change in non-cash working capital ⁽¹⁾	(42,294)	(3,449)
Relating to:		
Operating activities	(39,240)	(18,078)
Financing activities	(91)	(6)
Investing activities	(2,963)	14,635
Change in non-cash working capital	(42,294)	(3,449)
Cash payments in respect of:		
Interest and fees on long-term debt	23,637	12,084
Income taxes	-	-

(1) Change in non-cash working capital excludes the impact of \$85.7 million of dividends declared, but not yet paid as at December 31, 2022.

20. 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, return capital to shareholders through payment of dividends, and to 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, 2022, 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:

<i>(CA\$ thousands)</i>	December 31, 2022	December 31, 2021
Working capital (surplus) deficit	(30,381)	133,416
Adjusted for current portion of:		
Derivative financial instrument assets	33,845	268
Derivative financial instrument liabilities	(818)	(52,783)
Lease liabilities	(9,450)	(10,206)
Adjusted Working Capital (surplus) deficit ⁽¹⁾⁽²⁾	(6,804)	70,695
Long-term debt	145,180	387,564
Net Debt ⁽²⁾	138,376	458,259
Total shareholders' equity	1,516,821	886,649

(1) "Adjusted Working Capital" is calculated as current assets less current liabilities, excluding derivative financial instruments and lease liabilities. As at December 31, 2022 and December 31, 2021, Adjusted Working Capital includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, other current assets, accounts payable and accrued liabilities, dividends payable and the current portion of decommissioning obligations.

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

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Spartan's Adjusted Working Capital fluctuated from a \$70.7 million deficit at December 31, 2021 to a \$6.8 million surplus at December 31, 2022 primarily due to the increase in revenue and accumulation of cash during the year ended December 31, 2022, offset by the dividend payable. The capital intensive nature of Spartan's operations may create a working capital deficiency during periods with high levels of capital investment, however the Company maintains sufficient unused bank credit lines to satisfy working capital deficiencies when they occur. As at December 31, 2022, the Company's \$450.0 million Credit Facility is undrawn (note 11).

During the year ended December 31, 2022, the Company's primary sources of funds were \$795.4 million of cash provided by operating activities, supplemented by short-term advances of bank debt under the Credit Facility. In addition, Spartan received cash proceeds of \$21.4 million on the exercise of stock options and warrants (note 13) and \$1.3 million from minor property dispositions for the year ended December 31, 2022.

Spartan used its cash provided by operating activities to fund the Company's exploration and development capital expenditures of \$434.2 million, the Bellatrix Corporate Acquisition of \$6.0 million, lease principal payments of \$9.1 million, to reduce its bank debt by \$245.6 million during the year ended December 31, 2022 and to fund a special cash dividend of \$0.50 per common share declared in the fourth quarter.

The Company monitors its capital structure and short-term financing requirements using a "Net Debt to Annualized AFF Ratio", which is calculated by Spartan as the Company's Net Debt (calculated above) relative to its "Annualized Adjusted Funds Flow" (calculated below). 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 year, therefore Spartan believes Adjusted Funds Flow is an appropriate metric to compare relative to its Net Debt which does not include lease liabilities. "Annualized Adjusted Funds Flow" is calculated by multiplying Adjusted Funds Flow for the most recently completed quarter, normalized for significant non-recurring items, by a factor of 4; management considers this annualized measure to be more representative of the Company's current financial position than a 12-month trailing measure. Management believes that the Net Debt to Annualized 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 (CA\$ thousands)	December 31, 2022	December 31, 2021
Cash provided by operating activities	200,363	147,975
Change in non-cash operating working capital	34,765	(8,509)
Add back: transaction costs	(43)	(71)
Deduct: lease payments	(2,246)	(2,369)
Adjusted Funds Flow for the quarter	232,839	137,026
Less: Other income - gain on construction project ⁽¹⁾	(14,315)	-
Adjusted Funds Flow for the quarter - normalized	218,524	137,026
Factor to Annualize	4	4
Annualized Adjusted Funds Flow ⁽¹⁾	874,096	548,104
Net Debt	138,376	458,259
Annualized Adjusted Funds Flow ⁽²⁾	874,096	548,104
Net Debt to Annualized AFF Ratio ⁽²⁾	0.2 x	0.8 x

(1) The calculation of Annualized Adjusted Funds Flow has been normalized for the gain of \$14.3 million recognized on completion of an infrastructure construction project during the fourth quarter of 2022 (note 5).

(2) In the 2021 Annual Financial Statements, Spartan previously referred to this capital management measure as the "Net Debt to Trailing

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AFF Ratio” based on “Trailing Adjusted Funds Flow”. The name of this measure has been changed to “Net Debt to Annualized AFF Ratio” based on “Annualized Adjusted Funds Flow”, however there is no change to the calculation methodology and the resulting ratio is unchanged.

As at December 31, 2022, Spartan had Net Debt of \$138.4 million, which is approximately 0.2 times the Company’s Annualized Adjusted Funds Flow for the fourth quarter of 2022. As cash provided by operating activities exceeded capital expenditures and dividends declared during 2022, the Company was able to significantly reduce its Net Debt and Net Debt to Annualized AFF ratio from \$458.3 million and 0.8 times, respectively, at December 31, 2021.

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 expenditures for 2023 are expected to be funded by a combination of cash on hand and cash provided by operating activities, and may be supplemented by short term advances of bank debt during periods of high capital investment. With the Company’s bank debt fully repaid and cash balance building, Spartan declared a special dividend of \$85.7 million to shareholders of record as of December 15, 2022 (note 13).

In the fourth quarter of 2022, Spartan announced that its Board of Directors had commenced a formal process to evaluate strategic positioning alternatives in an effort to enhance shareholder value (the “Repositioning Process”). The Repositioning Process is progressing as planned and includes the evaluation of a broad range of alternatives including, but not limited to, a corporate sale, merger, corporate restructuring, sale of select assets, sale of a royalty, purchase of assets, the spin-out of select assets into a newly-formed company whose securities would be distributed to shareholders or any combination of these potential alternatives in conjunction with a robust return of capital strategy. Spartan’s business has not been impacted during this Repositioning Process and the Company continues to execute on the 2023 budget published in its press release dated November 30, 2022. The Company has delayed implementing a future return of capital strategy, which may include a combination of share repurchases, base dividend payments and/or special dividend payments, until completion of the Repositioning Process.

As at December 31, 2022, 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).

21. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company’s contractual commitments as of December 31, 2022:

<i>(CA\$ thousands)</i>	2023	2024	2025	2026	2027	Thereafter
Gas transportation ⁽¹⁾	22,556	22,146	21,730	18,631	13,397	10,946
Liquids transportation ⁽²⁾	20,743	17,273	17,226	17,226	17,226	19,688
NGLs fractionation ⁽³⁾	1,333	1,425	1,421	1,421	1,421	3,197
Processing fees ⁽⁴⁾	9,440	4,295	4,219	4,138	4,138	26,176
Capital commitments ⁽⁵⁾	39,192	31,173	28,500	-	-	-
Total commitments ⁽⁶⁾	93,264	76,312	73,096	41,416	36,182	60,007

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

(2) Relates to upstream oil and NGLs transportation contracts in place until December 2028 and March 2030.

(3) Includes: (i) an agreement for fractionation fees on the committed volume of C3+ mix purchased until March 2023; and (ii) an agreement for the delivery of firm volume of C3+ to a fractionation facility until March 2030.

(4) Processing fee commitments relate to the following agreements: (i) a gas handling agreement at the Wapiti plant for transportation, compression and processing of natural gas until June 2023; (ii) firm capacity for natural gas gathering and processing at the Fourth Creek gas plant until October 2025; (iii) firm capacity for natural gas gathering and processing at the Kanata Simonette gas plant until September 2040.

(5) As at December 31, 2022, capital commitments include: (i) the remaining commitment to drill and tie-in 9 wells (estimate \$85.5 million) over a three-year period or be subject to a penalty of \$2.8 million per well, pursuant to the August 2022 infrastructure construction agreement (note 5) and (ii) an agreement committing Spartan to purchase \$13.4 million of casing and tubing for future capital projects over 2023 to 2024.

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(6) The commitments table does not include lease liabilities. A contractual maturity of the Company's financial liabilities and undiscounted lease payments is provided in note 4.

Disposition of Spearhead and Flanagan South pipeline commitments

During the first quarter of 2022, Spartan entered into an agreement with a third party to assign its firm transportation capacity and release Spartan from its related obligations on the Spearhead and Flanagan South pipelines effective April 1, 2022. Pursuant to the assignment agreement, Spartan received cash proceeds of US\$0.5 million and has reduced the Company's aggregate contractual commitments by approximately \$72.3 million. The contracts were assumed through the Velvet Acquisition and were not integral to Spartan's core business operations.

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.

22. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

On January 1, 2022, two subsidiaries were vertically amalgamated with Spartan. On August 9, 2022 Bellatrix was wound up into Spartan concurrent with closing the Bellatrix Corporate Acquisition. Spartan has one wholly owned subsidiary as at December 31, 2022, Inception General Partner Inc. Balances and transactions between Spartan and its subsidiary are eliminated on consolidation.

b) Related party transactions

During the year ended December 31, 2022, the Company incurred \$1.2 million of legal fees to a law firm where the corporate secretary of the Company is a partner (2021 – \$2.9 million). Approximately \$0.1 million of legal fees are included in the balance of accounts payable and accrued liabilities as at December 31, 2022 (2021 - \$0.1 million).

ARETI Energy S.A.

ARETI Energy S.A. ("ARETI") became a significant shareholder of Spartan pursuant to the Inception Acquisition on March 18, 2021. According to ARETI's public reporting, ARETI owned and controlled (through direct ownership or its affiliates) approximately 19.6% of the Company's total common shares outstanding as of December 31, 2021.

On March 28, 2022, ARETI announced the sale of 15 million common shares of Spartan, reducing its ownership to less than 10% of the issued and outstanding common shares of the Company. In April 2022, the agreement entered into by Spartan and ARETI in March 2021 which gave ARETI the right to nominate two directors to Spartan's board was terminated and Elliot Weissbluth and Steve Lowden resigned as directors of the Company.

In addition, the Company agreed to amend and terminate certain agreements which obligated ARETI to indemnify Spartan in certain circumstances. As a result, Spartan recorded a write down of other non-current assets of \$7.5 million during the first quarter of 2022 related to the indemnification assets recognized in the purchase price allocation for the Inception Acquisition (note 6). Spartan has no further contractual relationship with ARETI as a result of the foregoing.

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c) Conversion of promissory note due to related party

The holder of the Convertible Note (note 12), ARETI Energy S.A., was a related party under IAS 24 Related Party Disclosures as at December 31, 2021. ARETI became a related party upon closing of the Inception Acquisition (note 6), however Spartan and ARETI were arm's length parties prior thereto, and ceased to be related parties on March 28, 2022.

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. The Convertible Note was cancelled upon conversion and had a carrying value of approximately \$30.9 million immediately prior to conversion.

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, 2022 and 2021.

<i>(CA\$ thousands)</i>	Year ended December 31	
	2022	2021
Salaries and benefits	8,229	5,467
Directors fees	238	138
Share based compensation ⁽¹⁾⁽²⁾	7,171	4,560
Total key management compensation	15,638	10,165

(1) During 2022, key management personnel were granted 756,300 share awards and 630,300 stock options with an exercise price of \$8.14 per share.

(2) 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.