SPARTAN DELTA CORP. (FORMERLY, RETURN ENERGY INC.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2021 AND 2020

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
[UNAUDITED]

(CA$ thousands)	[Notes]	**March 31, 2021**	December 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		**109,601**	2,686
Accounts receivable	[4]	**34,524**	20,475
Prepaid expenses and deposits		**2,725**	1,529
Total current assets		**146,850**	24,690
Other non-current assets	[5]	**7,500**	-
Exploration and evaluation assets	[6]	**13,432**	2,538
Property, plant and equipment	[7]	**430,374**	256,939
Right-of-use assets	[8]	**46,623**	47,263
Deferred income tax asset	[13]	**34,834**	-
Total assets		**679,613**	331,430
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	[4]	**45,739**	34,149
Derivative financial instruments	[4]	**4,876**	2,063
Deferred premium on flow through shares	[12]	**10,098**	-
Lease liabilities	[8]	**7,483**	6,853
Decommissioning obligations	[9]	**2,808**	2,833
Total current liabilities		**71,004**	45,898
Bank debt	[10]	**-**	-
Derivative financial instruments	[4]	**-**	1,074
Lease liabilities	[8]	**41,764**	42,913
Convertible promissory note	[11]	**25,749**	-
Decommissioning obligations	[9]	**126,866**	95,254
Deferred income tax liability	[13]	**-**	8,751
Total liabilities		**265,383**	193,890
SHAREHOLDERS' EQUITY			
Share capital	[12]	**325,017**	108,481
Warrants	[12]	**9,891**	9,891
Contributed surplus		**10,986**	9,996
Retained earnings		**68,336**	9,172
Total shareholders' equity		**414,230**	137,540
Total liabilities and shareholders' equity		**679,613**	331,430
Commitments and contingencies	[18]		
Subsequent event	[20]		

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

Approved on behalf of the Board of Directors:

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

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
[UNAUDITED]

		Three months ended March 31	
(CA$ thousands, except per share amounts)	[Note]	**2021**	2020
Revenue			
Oil and gas sales	[14]	**69,283**	373
Royalties		**(8,717)**	(1)
Oil and gas sales, net of royalties		**60,566**	372
Processing and other		**1,790**	45
		62,356	417
Loss on derivative financial instruments	[4]	**(4,702)**	-
Expenses			
Operating		**14,534**	515
Transportation		**3,855**	-
General and administrative		**3,493**	861
Share based compensation	[12]	**990**	-
Financing	[15]	**1,396**	(48)
Depletion, depreciation and impairment	[7,8]	**9,224**	3,909
		33,492	5,237
Other income (expenses)			
Gain on sale of assets	[7]	**32**	-
Gain on acquisition	[5]	**35,134**	-
Transaction costs	[5]	**(688)**	-
Other income		**634**	-
Change in fair value of convertible promissory note	[11]	**(456)**	-
		34,656	-
Net income (loss) before income taxes		**58,818**	(4,820)
Income tax recovery	[13]	**(346)**	-
Net income (loss) and comprehensive income (loss)		**59,164**	(4,820)
Net income (loss) per share			
Basic	[12]	**0.87**	(0.18)
Diluted	[12]	**0.73**	(0.18)

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

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

(CA$ thousands)	[Note]	Share capital	Warrants	Contributed surplus	Retained earnings (deficit)	Total
Balance at December 31, 2020		108,481	9,891	9,996	9,172	137,540
Net income and comprehensive income		-	-	-	59,164	59,164
Common shares issued, net of costs:						
Equity offerings	[12]	124,005	-	-	-	124,005
Deferred premium on flow-through shares	[12]	(10,098)	-	-	-	(10,098)
Pursuant to acquisitions	[5]	105,793	-	-	-	105,793
Issue costs, net of deferred tax	[12]	(3,164)	-	-	-	(3,164)
Share based compensation expense		-	-	990	-	990
Balance at March 31, 2021		**325,017**	**9,891**	**10,986**	**68,336**	**414,230**
Balance at December 31, 2019		45,748	9,965	8,418	(38,491)	25,640
Net loss and comprehensive loss		-	-	-	(4,820)	(4,820)
Balance at March 31, 2020		45,748	9,965	8,418	(43,311)	20,820

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

SPARTAN DELTA CORP.
CONSOLIDATED STATEMENTS OF CASH FLOW
[UNAUDITED]

		Three months ended March 31	
(CA$ thousands)	[Note]	**2021**	2020
Operating activities			
Net income (loss)		**59,164**	(4,820)
Items not affecting cash:			
Unrealized loss on derivative financial instruments	[4]	**1,739**	-
Share based compensation		**990**	-
Financing	[15]	**1,040**	31
Depletion, depreciation and impairment		**9,224**	3,909
Gain on acquisition		**(35,134)**	-
Gain on sale of assets		**(32)**	-
Other income	[9]	**(101)**	-
Change in fair value of convertible promissory note		**456**	-
Deferred income tax recovery	[13]	**(346)**	-
Settlement of decommissioning obligations	[9]	**(671)**	(627)
Change in non-cash working capital	[16]	**(4,222)**	961
Cash provided by (used in) operating activities		**32,107**	(546)
Financing activities			
Advances of bank debt	[10]	**15,000**	-
Repayments of bank debt	[10]	**(15,000)**	-
Issue of common shares, net of costs	[12]	**119,896**	-
Lease payments	[8]	**(2,400)**	-
Change in non-cash working capital	[16]	**250**	-
Cash provided by financing activities		**117,746**	-
Investing activities			
Exploration and evaluation assets	[6]	**(380)**	(40)
Property, plant and equipment	[7]	**(18,902)**	(336)
Property acquisitions	[5]	**(19,766)**	-
Corporate acquisitions	[5]	**(300)**	-
Property dispositions	[7]	**62**	-
Change in non-cash working capital	[16]	**(3,652)**	108
Cash used in investing activities		**(42,938)**	(268)
Net change in cash and cash equivalents		**106,915**	(814)
Cash and cash equivalents, beginning of year		**2,686**	24,653
Cash and cash equivalents, end of period		**109,601**	23,839

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

1. GENERAL INFORMATION

Spartan Delta Corp. (formerly Return Energy Inc., “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 petroleum and natural gas properties in western Canada. Prior to January 1, 2021, Spartan’s oil and gas operations were conducted through its wholly owned subsidiary Winslow Resources Inc. (“Winslow”). Effective January 1, 2021, Spartan and Winslow were vertically amalgamated and substantially all of the Company’s operations are now conducted directly through Spartan Delta Corp. These financial statements include the consolidated balances of all subsidiaries (note 19), however the Company does not have any material subsidiaries as at March 31, 2021.

The Company appointed a new management team and new board of directors as part of a recapitalization transaction on December 19, 2019. On June 1, 2020, Spartan closed its first transformational acquisition of assets for total consideration of $108.8 million (note 5). The assets acquired are concentrated in the Deep Basin of west central Alberta, principally focused on development of liquids-rich natural gas and light oil prospects in the Spirit River and Cardium formations. The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the previous year ended December 31, 2020 included the results of operations related to the acquired assets for the 214 day period from closing the acquisition on June 1, 2020. As a result, the Company’s net income (loss) and cash flows for the comparative period ended March 31, 2020 are not significant.

During the first quarter of 2021, Spartan completed a series of strategic acquisitions which further transform the Company. The Acquisitions, which collectively refer to the Inception Acquisition, Simonette Acquisition, Willesden Green Acquisition, and the January 2021 Acquisition (all of which are defined and described in note 5), added a new Montney focused core area in northwest Alberta and compliment the Company’s existing core land holdings in west central Alberta. Concurrent with the acquisitions, Spartan completed equity financings for aggregate gross proceeds of $124.0 million, comprised of $79.0 million of non-brokered private placements and a $45.0 million bought deal prospectus offering (note 12).

Common shares of Spartan are listed on the TSX Venture Exchange (“TSXV”) and trade under the symbol “SDE”. The Company’s head office is located at 500, 207 – 9th Avenue S.W., Calgary, Alberta T2P 1K3. The registered office is located at 4300 Bankers Hall West, 888 – 3rd Street S.W., Calgary, Alberta T2P 5C5.

2. BASIS OF PREPARATION

a) Statement of compliance

These condensed consolidated interim financial statements (the “Financial Statements”) are unaudited and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. Certain disclosures included in the notes to the annual financial statements have been condensed in the following interim note disclosures or have been disclosed on an annual basis only. Accordingly, these Financial Statements should be read in conjunction with the audited consolidated annual financial statements for the year ended December 31, 2020.

The Company’s Board of Directors approved these Financial Statements on May 10, 2021.

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 described 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. Except as discussed below, the significant judgments, estimates and assumptions made by management in the Financial Statements are consistent with those outlined in note 2 of the December 31, 2020 consolidated annual financial statements.

i. Asset Acquisitions

The application of the Company's accounting policy for business combinations requires management to make certain judgments in applying the optional concentration test under IFRS 3 Business Combinations ("IFRS 3"), to determine whether the acquired assets meet the definition of a business combination or an asset acquisition. It was determined, through the application of the concentration test, that the January 2021 Acquisition (note 5) constitutes an asset acquisition as opposed to a business combination. Where an acquisition involves a group of assets and liabilities, and does not constitute a business, the acquirer must identify and recognize the individual assets acquired and liabilities assumed. The cost of the transaction is allocated to the assets acquired and liabilities assumed based on their relative fair values at the date of purchase.

The impact of accounting for the January 2021 Acquisition as an asset acquisition as opposed to a business combination resulted in an unrecognized deferred tax asset of $41.8 million on initial recognition. In the absence of prescriptive guidance under IFRS, judgement was required to determine an appropriate accounting policy pursuant to which the unrecognized tax asset will be recognized in the future. Spartan's accounting policy is to recognize the previously unrecognized non-capital losses in proportion to the estimated amount of taxable income generated each period. For the three months ended March 31, 2021, Spartan recognized $6.2 million of the previously unrecognized deferred tax asset. The recovery more than offset deferred income tax expense for the quarter and increased net income by $6.2 million.

ii. 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. Following the Acquisitions, the Company reviewed and realigned its CGUs taking into consideration the factors outlined above. At March 31, 2021, Spartan has three core CGUs, namely: "Central Alberta", "Gold Creek" and "Simonette" which represent approximately 98% of the carrying value of PP&E collectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company are described in note 3 of the December 31, 2020 consolidated annual financial statements. Except as noted below, these condensed consolidated interim financial statements at March 31, 2021 have been prepared following the same accounting policies and methods of computation as the most recent consolidated annual financial statements for the year ended December 31, 2020.

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, 2021. None of the accounting pronouncements are expected to have a material impact upon initial adoption. Spartan will continue to evaluate the impact of the pronouncements which will be adopted on their respective effective dates.

Taxation

The accounting for an asset acquisition may give rise to an unrecognized deferred income tax asset on initial recognition. Spartan has adopted a policy whereby the previously unrecognized deferred income tax asset will subsequently be recognized in net income (loss) in proportion to the estimated amount of taxable income generated in each period of the fiscal year.

4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at March 31, 2021, financial instruments of the Company include cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities, derivative financial instruments, bank debt, and a convertible promissory note. The fair values of these financial assets and liabilities approximate their carrying value due to the short term to maturity of those instruments, except for the convertible promissory note which has a five-year term and is measured at fair value through profit or loss (“FVTPL”). In addition, the fair value of bank debt approximates its carrying value given it bears a floating rate of interest. The methodology used to determine the fair value for the Company’s derivative financial instruments is described further in this note.

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 (loss), 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 which are unchanged from December 31, 2020.

a) Market Risks

More than a year after being declared a global pandemic by the World Health Organization in March 2020, COVID-19 continues to impact global economic conditions. Global financial markets, and commodity prices in particular, have experienced significant volatility and uncertainty. Crude oil and natural gas prices have recovered from the historic lows observed in the first two quarters of 2020 and exceeded pre-pandemic levels during the first quarter of 2021. While the current outlook for commodity prices is relatively strong, long-term price support from future demand remains uncertain. The Company continues to respond to market fundamentals and is carefully monitoring emerging developments. Spartan is committed to maintaining its strong statement of financial position and financial liquidity, and is well positioned to withstand challenges and to take advantage of the opportunities presented by the current business environment.

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.

Spartan has natural gas price risk management contracts in place to protect cash flows and project economics. The contracts were originally established in June 2020 to satisfy certain one-time minimum hedging requirements under the Credit Facility (note 10). During the first quarter of 2021, more than two-thirds of the Company’s production was natural gas.

The following financial derivative contracts were outstanding as at March 31, 2021:

Contract Type	Remaining Term	Notional Volume (GJ/d)	Fixed Price (CA$/GJ)	Reference Price	Fair value Asset (Liability)
Natural gas fixed	Apr 1, 2021 to Oct 31, 2021	10,000	2.14	AECO 7A	(673)
Natural gas fixed	Apr 1, 2021 to Mar 31, 2022	35,000	2.25	AECO 7A	(4,203)
Derivative instrument financial liability					**(4,876)**

The fair values of these contracts are highly sensitive to changes in the natural gas reference prices. Holding other assumptions constant, if the AECO 7A price increased (decreased) by $0.10 per gigajoule, the fair market value of the net derivative financial instrument liability would increase (decrease) by approximately $1.5 million.

Foreign exchange risk

Spartan is exposed to fluctuations of the Canadian to U.S. dollar exchange rate given the Company's realized pricing in Canadian dollars is directly influenced by U.S. dollar denominated benchmark pricing. As at March 31, 2021, there were no foreign exchange risk management contracts outstanding.

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 interest bearing cash deposits and bank debt which bear floating rates of interest. Under the Credit Facility (note 10), interest rates fluctuate based on the Canadian prime rate plus an applicable margin. The Company's cash is held on deposit in an interest-bearing account with a Canadian chartered bank. Holding all other assumptions constant, the impact of an increase (decrease) in the market rate of interest by 50 basis points would impact Spartan's financial results as follows:

- Based on average bank debt outstanding of $1.7 million during the first quarter of 2021, the annualized impact on interest expense would be nominal. Spartan has no bank debt outstanding as at March 31, 2021.
- As at March 31, 2021, Spartan has $109.6 million of cash on hand from net proceeds of equity financings which closed on March 18, 2021. The annualized impact on interest income would be approximately $0.5 million, based on cash deposits outstanding at the end of the quarter.

As at March 31, 2021, there are no interest rate risk management contracts outstanding.

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 March 31, 2021 include accounts payable, derivative financial instrument liabilities, bank debt, and a convertible promissory note. In addition, the Company has financial commitments in respect of lease liabilities (note 8). Spartan also expects to settle approximately $2.8 million of decommissioning obligations in the next twelve months (note 9), however the current portion of decommissioning obligations is not included in this note because the timing of expenditure is discretionary.

The Company prepares and regularly updates its capital and operating budget to forecast future cash flows to ensure, to the extent possible, that it will have sufficient liquidity to meet its obligations. During the first quarter of 2021, Spartan temporarily advanced $15.0 million on the Credit Facility to fund the cash purchase price for the Simonette Acquisition (note 5), which was subsequently repaid in full with net proceeds of the equity financings (note 12). As at March 31, 2021, Spartan had $109.6 million of cash on hand and no bank debt outstanding on its $100.0 million Credit Facility (note 10). The Company has sufficient liquidity to meet its financial obligations and to take advantage of future opportunities as they arise.

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

(CA$ thousands)	Within 1 Year	1 to 5 Years	More than 5 Years	Total
Accounts payable and accrued liabilities	45,739	-	-	45,739
Derivative financial instrument liability	4,876	-	-	4,876
Standby fees on Credit Facility (1)	720	120	-	840
Convertible promissory note (2) (note 11)	-	25,749	-	25,749
Undiscounted lease liabilities (3) (note 8)	10,091	45,963	2,762	58,816
Total	**61,426**	**71,832**	**2,762**	**136,020**

(1) As at March 31, 2021, the Company has no bank debt outstanding on its Credit Facility with an authorized borrowing amount of $100.0 million. Standby fees were estimated at 0.75% of the undrawn borrowing base for the period from April 1, 2021 to the term maturity date of May 31, 2022.

(2) The principal amount of the convertible promissory note is $50.0 million and shall be payable on the maturity date of March 18, 2026, in the event Spartan does not elect to exercise its option to settle the obligation by converting to common shares. The carrying amount of $25.7 million reflects its fair value based on Spartan's closing share price of $3.95 per common share on March 31, 2021.

(3) As at March 31, 2021, the present value of the Company's total lease liability is $49.2 million, of which $7.5 million is expected to be settled in the next twelve months.

c) Credit Risk

The carrying amount of cash and cash equivalents, accounts receivable and deposits, represent the Company's maximum credit exposure. Cash and cash equivalents are held on deposit with a Canadian chartered bank. The Company's credit risk exposure arises primarily from receivables from oil and gas marketers and joint venture partners.

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

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Oil and gas marketers	**30,830**	15,986
Joint venture partners	**3,694**	4,100
GST input tax credits	**-**	389
Accounts receivable	**34,524**	20,475

During the three months ended March 31, 2021, sales to three oil and gas marketers each individually represented more than 10% of revenue. Sales to these marketers account for approximately 39%, 29% and 23% of total oil and gas sales revenue (before royalties), respectively. Spartan's oil and gas marketers are large, credit-worthy institutions. The Company has parental guarantees or letters of credit in place with certain key marketers covering approximately 40% of Spartan's credit exposure as at March 31, 2021.

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

(CA$ thousands)	Current	30-60 days	60-90 days	Over 90 days	Total
Balance at March 31, 2021	**32,467**	**1,372**	**50**	**635**	**34,524**
Balance at December 31, 2020	17,345	1,299	1,216	615	20,475

The oil and gas industry has a pre-arranged monthly clearing day for payment of revenues from all buyers of oil and natural gas; this occurs on the 25th day following the month of sale. As a result, the Company's production revenues are current. All other accounts receivable are generally contractually due within 30 days, however the collection period is typically between 60 to 90 days. Amounts outstanding for more than 90 days are generally considered "past due" and relate primarily to receivables from the Company's joint venture partners. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount. Management has reviewed past due accounts receivable balances as at

March 31, 2021 and expects the accounts to be collectible, except for approximately $0.6 million of accounts receivable which are provided for in the expected credit loss provision ($0.2 million at December 31, 2020). Included in the expected credit loss provision in the quarter ended March 31, 2021 is a provision of $0.3 million applied to certain accounts receivable balances acquired as part of the Inception Acquisition (note 5).

Gains and losses on derivative financial instruments

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

	Three months ended March 31	
(CA$ thousands)	**2021**	2020
Realized loss	**(2,963)**	-
Change in unrealized loss	**(1,739)**	-
Loss on derivative financial instruments	**(4,702)**	-

Fair value measurements

The table below summarizes fair value measurements for each hierarchy level as at March 31, 2021:

(CA$ thousands)	Level 1	Level 2	Level 3
Financial liabilities			
Derivative financial instruments	-	**4,876**	-
Convertible promissory note	**25,749**	-	-

Offsetting of financial instruments

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

5. ACQUISITIONS

a) Corporate acquisition – the January 2021 Acquisition

On January 14, 2021, the Company acquired all of the issued and outstanding shares of two private companies for total consideration of $8.2 million (the "January 2021 Acquisition"). The aggregate purchase price included $0.3 million of cash and 2.0 million common shares valued at $3.95 per common share, based on the closing price of Spartan's common shares on the TSXV on the closing date of the acquisition.

The acquired entities were vertically amalgamated on the closing date under the name of Spartan Delta Corp. The acquired assets primarily include non-producing petroleum and natural gas properties in Spartan's new core development area in the Alberta Montney and tax pools. The January 2021 Acquisition does not meet the definition of a business and has been accounted for under IFRS 3 as an asset acquisition. The total consideration has been allocated to the assets acquired and liabilities assumed based on their relative fair values. As a result, no gain is recognized for a bargain purchase and Spartan had an unrecognized deferred tax asset of $41.8 million on initial recognition of the January 2021 Acquisition.

The following table summarizes the allocation of the purchase price to the identifiable assets and liabilities acquired:

(CA$ thousands)	**January 14, 2021**
Cash consideration	300
Common share consideration	7,910
Total consideration	**8,210**
Net working capital	181
Exploration and evaluation assets	48
Property, plant and equipment	14
Decommissioning obligations	(500)
Deferred income tax asset	8,467
Net assets acquired	**8,210**

b) Property acquisition – the Willesden Green Acquisition

On March 5, 2021, Spartan closed an acquisition of producing petroleum and natural gas assets located at Willesden Green, Alberta, for cash consideration of $5.2 million after estimated closing adjustments (the “Willesden Green Acquisition”). The assets acquired are contiguous with Spartan's existing core operating assets in west-central Alberta and include a combination of royalty and working interest production, as well as interests in associated infrastructure.

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

(CA$ thousands)	**March 5, 2021**
Cash consideration, after estimated closing adjustments	5,211
Total consideration (1)	**5,211**
Exploration and evaluation assets	250
Property, plant and equipment	6,653
Decommissioning obligations	(1,692)
Fair value of net assets acquired (1)	**5,211**

(1) The fair values of identifiable assets and liabilities acquired are management’s best estimates based on information available at the time of preparing these Financial Statements. The amount of cash consideration is also estimated based on an interim statement of adjustments. The reader is cautioned that future revisions to these estimates over the measurement period (one year from the closing date of the acquisition) could result in a significant change from the amounts reported herein.

The fair value of PP&E acquired was estimated based on fair value less costs of disposal (“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 an internally prepared report on the petroleum and natural gas reserves acquired.

The undiscounted amount of decommissioning obligations acquired is estimated to be approximately $3.4 million ($5.1 million inflated at 2%). The fair value of decommissioning obligations acquired of $1.7 million was estimated by discounting the inflated cost estimates using a “credit-adjusted risk-free rate” of 6.8% on the closing date. The obligations acquired were subsequently remeasured in accordance with the Company’s accounting policy, whereby decommissioning obligations are discounted using a “risk-free rate”. Remeasurement of the decommissioning obligations acquired at a risk-free rate of 1.9% on March 5, 2021, resulted in an increase in the present value of decommissioning obligations acquired by $1.8 million and a corresponding increase recorded directly to PP&E.

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the three months ended March 31, 2021 includes the results of operations for the Willesden Green Acquisition starting from the closing date. Specifically, Spartan's net income for the quarter ended March 31, 2021, includes $0.3 million of revenue (after royalties) and $0.2 million of operating income generated from the Willesden Green Acquisition for the 27 day period from March 5 to March 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $1.0 million and $0.7 million, respectively, for the quarter ended March 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

c) Property acquisition – the Simonette Acquisition

On March 18, 2021, Spartan acquired certain petroleum and natural gas assets located primarily in the Simonette area of northwest Alberta for total consideration of $20.3 million after estimated closing adjustments (the "Simonette Acquisition"). The gross purchase price was comprised of the issuance of 1,493,180 common shares and $17.2 million of cash, before closing adjustments. Estimated adjustments to the cash purchase price were approximately $2.6 million between the effective date of January 1, 2021 and closing. The fair value of the common share consideration was $5.8 million based on Spartan's closing share price of $3.88 per common share on March 18, 2021.

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

(CA$ thousands)	**March 18, 2021**
Cash consideration, after estimated closing adjustments	14,555
Common share consideration	5,794
Total consideration (1)	**20,349**
Exploration and evaluation assets	3,053
Property, plant and equipment	35,473
Decommissioning obligations	(18,177)
Fair value of net assets acquired (1)	**20,349**

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

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

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

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

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the three months ended March 31, 2021 includes the results of operations for the Simonette Acquisition starting from the closing date. Specifically, Spartan’s net income for the quarter ended March 31, 2021, includes $1.5 million of revenue (after royalties) and $0.8 million of operating income generated from the Simonette Acquisition for the 14 day period from March 18 to March 31, 2021. “Operating income” does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $9.6 million and $4.6 million, respectively, for the quarter ended March 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

d) Corporate acquisition – the Inception Acquisition

On March 18, 2021, Spartan closed the acquisition of Inception Exploration Ltd. (“Inception”) by way of an exempt take-over bid for total consideration of $117.4 million (the "Inception Acquisition"). Inception was an oil-weighted Montney focused private company with operations primarily in the Gold Creek area of northwest Alberta, in the vicinity of the Company's lands acquired pursuant to the January 2021 Acquisition.

Spartan acquired all of the issued and outstanding common shares of Inception in exchange for an aggregate of 23,734,384 Spartan common shares, of which the majority of common shares were issued to a major shareholder and debtholder of Inception, ARETI Energy S.A. (“ARETI”). Upon closing of the Inception Acquisition, ARETI acquired ownership and control over 23,675,779 Spartan common shares representing approximately 20.8% of the total number of Spartan common shares issued and outstanding on a non-diluted basis (see also, note 19). The fair value of common share consideration was $92.1 million based on Spartan’s closing share price on the TSXV of $3.88 per common share on March 18, 2021. In addition, Spartan issued a $50.0 million unsecured non-interest bearing convertible promissory note (the "Convertible Note") to ARETI (the “Noteholder”). The fair value of the Convertible Note was estimated to be approximately $25.3 million on the acquisition date. Additional information regarding the terms and valuation of the Convertible Note are provided in note 11 of these Financial Statements.

Inception was vertically amalgamated with Spartan on the closing date. A wholly owned subsidiary of Inception, Inception General Partner Inc. (“Inception GP”), was not amalgamated and continues to operate as a separate legal entity. Inception GP is the general partner of three limited partnerships, to each of which it holds a 0.01% interest. The operations and balances of Inception GP have been consolidated and are not material to Spartan.

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

(CA$ thousands)	**March 18, 2021**
Common share consideration	92,089
Convertible promissory note	25,293
Total consideration	**117,382**

Net working capital [1]	(4,150)
Other non-current assets	7,500
Exploration and evaluation assets	7,163
Property, plant and equipment	109,976
Right-of-use assets	1,048
Lease liabilities	(1,048)
Decommissioning obligations	(1,800)
Deferred income tax asset	33,827
Fair value of net assets acquired [2]	**152,516**
Gain on acquisition [2]	**(35,134)**

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

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

A gain on acquisition of $35.1 million was recognized on the Inception Acquisition as the total fair value of consideration paid was less than the estimated fair value of the net assets acquired. The gain is primarily attributed to significant tax pools assumed by acquiring the corporate entity. Inception's unused tax pools were estimated to be $287.1 million on the acquisition date, of which approximately half are non-capital losses. The unused tax losses and deductible temporary differences resulted in a deferred income tax asset of $39.5 million, net of a deferred income tax liability on taxable temporary differences of $5.7 million. Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Based on forecast cash flows in the Inception reserves report, Spartan expects the successored properties to generate sufficient taxable income in the future to utilize the deductions from successored resource pools estimated to be $114.8 million. Spartan also expects to generate sufficient taxable income corporately to utilize the non-capital losses prior to expiry in years 2033 to 2040.

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

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

Spartan assumed certain lease obligations in respect of compression equipment and Inception's office space, with lease terms ending between February 2022 and August 2025. The present value of the lease payments was determined based on the rate implicit in the compression equipment leases of 8.3% and using Spartan's estimated incremental borrowing rate of 4.0% for the office lease. The present value of the lease payments resulted in a lease liability and corresponding right-of-use asset of $0.6 million and $0.4 million for the compression leases and office lease, respectively.

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

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

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

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

The Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss) for the three months ended March 31, 2021 includes the results of operations for the Inception Acquisition from the closing date until March 31, 2021. Specifically, Spartan's net income for the quarter ended March 31, 2021, includes $2.9 million of revenue (after royalties) and $1.6 million of operating income generated from the Inception Acquisition for the 14 day period from March 18 to March 31, 2021. "Operating income" does not have a standardized meaning under IFRS. For purposes of this pro-forma disclosure, the Company has calculated operating income as revenue (after royalties), less operating and transportation expenses. If the acquisition had occurred on January 1, 2021, pro-forma revenue and operating income is estimated to be approximately $19.8 million and $10.7 million, respectively, for the quarter ended March 31, 2021. This pro-forma information is not necessarily indicative of the results of operations that would have resulted had the acquisition been effected on the dates indicated, or the results that may be obtained in the future.

e) BXE Acquisition

On June 1, 2020, the Company acquired substantially all of assets of Bellatrix Exploration Ltd. for total consideration of $108.8 million (the "BXE Acquisition"). The assets acquired are primarily located in the Deep Basin of west central Alberta. Spartan recognized a gain on acquisition as the estimated fair value of the net assets acquired exceeded the consideration paid by $53.0 million.

6. EXPLORATION AND EVALUATION ASSETS

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

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Balance, beginning of year	**2,538**	349
Additions	**380**	1,302
Corporate acquisitions (note 5)	**7,211**	-
Property acquisitions (note 5)	**3,303**	895
Expired mineral leases (1)	**-**	(8)
Balance, end of period	**13,432**	2,538

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

7. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment consist of development and production assets ("D&P") and corporate assets. D&P assets include the Company's interests in developed petroleum 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 periods:

Property, plant and equipment, at cost	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2019	14,031	48	14,079
Additions	15,184	334	15,518
Property acquisitions (note 5)	204,119	175	204,294
Decommissioning discount rate adjustment	57,303	-	57,303
Dispositions	-	(59)	(59)
Decommissioning costs	(6,130)	-	(6,130)
Balance at December 31, 2020	**284,507**	**498**	**285,005**
Additions	18,632	270	18,902
Corporate acquisitions (note 5)	109,990	-	109,990
Property acquisitions (note 5)	42,126	-	42,126
Decommissioning discount rate adjustment (note 9)	22,823	-	22,823
Dispositions	-	(30)	(30)
Decommissioning costs	(12,957)	-	(12,957)
Balance at March 31, 2021	**465,121**	**738**	**465,859**

Accumulated DD&I	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2019	5,090	23	5,113
Depletion and depreciation	19,876	79	19,955
Impairment	2,998	-	2,998
Balance at December 31, 2020	**27,964**	**102**	**28,066**
Depletion and depreciation	7,379	40	7,419
Balance at March 31, 2021	**35,343**	**142**	**35,485**

Net carrying value	**D&P assets**	**Corporate**	**Total PP&E**
Balance at December 31, 2020	256,543	396	256,939
Balance at March 31, 2021	**429,778**	**596**	**430,374**

FDC expenditures required to develop total proved plus probable reserves in the amount of $984.8 million are included in the depletion calculation for D&P assets for the three months ended March 31, 2021 ($417.3 million at December 31, 2020). The increase in estimated FDC costs of $567.5 million reflects the Acquisitions partly offset by capital spending in the quarter.

Spartan assessed each of its cash generating units ("CGUs") for indicators of potential impairment as at March 31, 2021 and concluded there are no indicators of impairment (or reversals of previously recognized impairments). As at March 31, 2020, the Company recognized an impairment loss of $3.0 million on its Peace River Arch CGU due to the significant decrease in forecast commodity prices compared to forecast prices as at December 31, 2019.

8. LEASES

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

RIGHT-OF-USE ASSETS

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

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Right-of-use asset, at cost		
Balance, beginning of year	**51,438**	-
Additions	**117**	796
Corporate acquisition (note 5)	**1,048**	50,642
Balance, end of period	**52,603**	51,438
Accumulated depreciation		
Balance, beginning of year	**4,175**	-
Depreciation expense	**1,805**	4,175
Balance, end of period	**5,980**	4,175
Right-of-use asset, net carrying value	**46,623**	47,263

LEASE LIABILITIES

As at March 31, 2021, the present value of the Company's total lease liability is $49.2 million, of which approximately $7.5 million is expected to be settled in the next twelve months. A continuity of the lease obligation is provided below:

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Lease liabilities		
Balance, beginning of year	**49,766**	-
Additions	**117**	796
Corporate acquisition (note 5)	**1,048**	50,642
Lease payments	**(2,400)**	(3,392)
Financing cost (note 15)	**716**	1,720
Balance, end of period	**49,247**	49,766
Lease liabilities expected to be settled within one year	**7,483**	6,853
Lease liabilities expected to be settled beyond one year	**41,764**	42,913

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

Short term leases

The Company has short term leases in place for vehicles and equipment with lease terms less than twelve months. The total amount expensed in respect of short term leases was less than $0.1 million during the quarter ended March 31, 2021.

9. DECOMMISSIONING OBLIGATIONS

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

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Balance, beginning of year	**98,087**	7,665
Obligations incurred	**196**	591
Obligations acquired (note 5)	**22,169**	27,207
Discount rate adjustment on obligations acquired (note 5)	**22,823**	70,409
Obligations disposed	**-**	(139)
Obligations settled	**(671)**	(1,429)
Obligations settled through government grant (1)	**(101)**	(203)
Changes in discount rate	**(13,045)**	(2,174)
Changes in estimates	**(108)**	(4,547)
Accretion (note 15)	**324**	707
Balance, end of period	**129,674**	98,087
Expected to be settled within one year	**2,808**	2,833
Expected to be settled beyond one year	**126,866**	95,254

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

The underlying cost estimates are derived from a combination of published industry benchmarks as well as site specific information. As at March 31, 2021, the total undiscounted amount of the estimated cash flows required to settle the obligation is $128.2 million ($83.5 million as of December 31, 2020), of which, Spartan expects to incur approximately $59.8 million over the next 20 years, $60.0 million in 20 to 50 years, and the residual thereafter. Based on an inflation rate of 2.0%, the estimated undiscounted future cash flows required to settle the obligation is $193.9 million at March 31, 2021 (December 31, 2020 – $128.3 million).

As at March 31, 2021, the carrying amount of the decommissioning obligations is based on a risk-free rate of 1.97% (1.21% at December 31, 2020). The increase in risk-free interest rate during the first quarter of 2021 reflects an improved economic outlook and recovery of long-term Canadian benchmark bond yields compared to 2020. The increase in discount rate resulted in a decrease in the carrying amount of decommissioning obligations by $13.0 million as at March 31, 2021 compared to December 31, 2020.

10. BANK DEBT

On June 1, 2020, the Company established a revolving committed term credit facility (the "Credit Facility") with a syndicate of lenders comprised of National Bank of Canada, ATB Financial and Canadian Western Bank (together, the "Lenders"). The Credit Facility has an authorized borrowing amount of $100.0 million and is available for a revolving period of 364 days maturing on May 31, 2021 and may be extended annually at the Company's option and subject to approval of the Lenders, with a 365 day term-out period if not renewed. As at March 31, 2021, Spartan had no bank debt outstanding. The Company has issued $4.0 million of standby letters of credit which are undrawn.

The following table reconciles movements in bank debt during the periods:

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Bank debt, beginning of year	**-**	-
Unamortized financing fees	**(510)**	(734)
Advances on syndicated facility	**15,000**	20,000
Repayments on syndicated facility	**(15,000)**	(20,000)
Amortization of financing fees	**96**	224
Reclassification of unamortized financing fees (1)	**414**	510
Bank debt, end of period	**-**	-

(1) Unamortized financing fees were reclassified on the Consolidated Statements of Financial Position to prepaid expenses and deposits because there is no bank debt outstanding at March 31, 2021.

The Credit Facility will be subject to semi-annual borrowing base reviews, occurring on or before May 31 and November 30 of each year. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the Lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

There are no financial covenants under the Credit Facility and Spartan is in compliance with all other covenants. Covenants include industry standard positive and negative covenants including reporting requirements, permitted indebtedness, permitted dispositions (to a maximum in each calendar year which are in the aggregate not more than 5% of the borrowing base then in effect), permitted risk management activities, permitted encumbrances and other standard business operating covenants. Security is provided for by a first fixed and floating charge debenture over all assets in the amount of $250.0 million and general assignment of book debts.

Interest is payable monthly for borrowings through direct advances. Interest rates fluctuate based on a pricing grid and range from bank prime plus 2.0% to bank prime plus 5.5%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times. Under the Credit Facility, borrowings through the use of bankers' acceptances are also available. Stamping fees fluctuate based on a pricing grid and range from 3.0% to 6.5%, depending upon the Company's then current debt to cash flow ratio of between less than one times to greater than three times.

11. CONVERTIBLE PROMISSORY NOTE

On March 18, 2021, Spartan issued a $50.0 million unsecured non-interest bearing convertible promissory note (the "Convertible Note") to the Noteholder in connection with the Inception Acquisition (note 5 and 19). The Convertible Note has a five-year term and is convertible, in whole or in part, anytime after two years at Spartan's sole discretion, with the conversion price calculated based on the greater of (i) the 10-day volume weighted average trading price immediately preceding delivery of a conversion notice by the Company to the Noteholder, and (ii) $7.67 per common share.

As at March 31, 2021, the maximum number of Spartan common shares issuable on conversion of the Convertible Note is approximately 6.5 million common shares, based on the initial principal amount of $50.0 million divided by the minimum conversion price of $7.67 per common share. For all periods in which Spartan's share price is less than $7.67, the Convertible Note is assumed to be "in-the-money" and the maximum number of shares potentially issuable on conversion is included in the calculation of the diluted weighted average common shares outstanding (note 12). In the event Spartan does not elect to exercise its option to settle the obligation by converting to common shares, the principal amount outstanding shall be due and payable to the Noteholder at the end of the five-year term.

The Convertible Note is measured at FVTPL and will be revalued based on Spartan's closing share price at the end of each reporting period (Level 1 fair value measurement, note 4). The fair value of the Convertible Note increased from $25.3 million on March 18, 2021 to $25.7 million as of March 31, 2021, resulting in an unrealized loss of approximately $0.5 million during the period. The fair value increased due to appreciation of the Company's share price from $3.88 on the issue date to $3.95 per common share on March 31, 2021.

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

(CA$ thousands)	**Principal Amount**	**Carrying Value**
Balance at December 31, 2020	-	-
Issued on acquisition (note 5)	50,000	25,293
Change in fair value	-	456
Balance at March 31, 2021	**50,000**	**25,749**
Current portion	**-**	**-**
Long-term portion	**50,000**	**25,749**

12. SHARE CAPITAL

On March 4, 2020, the shareholders of the Company approved a consolidation of common shares on the basis of a ratio of one-hundred (100) pre-consolidation common shares for each post-consolidation common share (the "Share Consolidation"). The Share Consolidation was completed on June 1, 2020.

All references to common shares, subscription receipts, warrants and stock options in these Financial Statements have been restated and are reflected on a post-consolidation basis.

a) Authorized

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

b) Issued and outstanding

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

	Number of common shares (000s)	Amount ($ thousands)
Balance at December 31, 2019	26,106	$ 45,748
Private placements	32,000	64,000
Issue costs, net of deferred tax ($441)	-	(1,461)
Issued for cash on exercise of warrants	120	120
Transfer value attributed to warrants exercised	-	74
Balance at December 31, 2020	**58,226**	**$ 108,481**
Equity offerings:		
Bought-deal prospectus offering	**11,250**	**45,000**
Non-brokered private placement	**6,250**	**25,000**
Flow-through private placement	**10,976**	**54,005**
Deferred premium on flow-through shares	**-**	**(10,098)**
Issued pursuant to acquisitions (note 5)	**27,230**	**105,793**
Issue costs, net of deferred tax ($945)	**-**	**(3,164)**
Balance at March 31, 2021	**113,932**	**$ 325,017**

Prospectus Offering

On March 8, 2021, the Company completed a bought deal public offering for gross proceeds of $45.0 million. The offering was led by a syndicate of underwriters by way of a short-form prospectus, pursuant to which the Company issued 11,250,000 subscription receipts of Spartan at a price of $4.00 per subscription receipt (the "Prospectus Offering"). Net proceeds of the Prospectus Offering were $42.7 million after underwriting commissions and other expenses. The net proceeds of the Prospectus Offering were released from escrow on March 18, 2021 upon closing of the Inception Acquisition and the Non-Brokered Offering (as defined below). Each subscription receipt was automatically exchanged for one common share for no additional consideration.

Non-Brokered Offering

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

The implied premium on the flow-through shares was determined to be $10.1 million or $0.92 per flow-through share, relative to the subscription price of $4.00 per share under the concurrent Non-Brokered Private Placement. Pursuant to the provisions of the *Income Tax Act* (Canada), the Company shall incur eligible Canadian development expenses (the “Qualifying Expenditures”) after the closing date and prior to December 31, 2021 in the aggregate amount of not less than the total gross proceeds raised from the Flow-Through Private Placement. As of March 31, 2021, the Company had not incurred Qualifying Expenditures, leaving $54.0 million of Qualifying Expenditures to be incurred in the balance of 2021 (as described further in note 18). The deferred premium on flow-through shares of $10.1 million is recognized initially as a liability on the Consolidated Statement of Financial Position as at March 31, 2021, and will subsequently be drawn-down in proportion to the Qualifying Expenditures incurred and recognized in net income.

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
Balance at December 31, 2019	16,204	$ 9,965	$ 1.00
Warrants exercised	(120)	(74)	(1.00)
Balance at December 31, 2020 and March 31, 2021	**16,084**	**$ 9,891**	**$ 1.00**

d) Share based compensation

Stock Options

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

The following table summarizes the change in stock options outstanding:

	Number of options (000s)	Average exercise price
Balance at December 31, 2019	-	-
Granted (1)	3,495	$ 3.00
Forfeited	(95)	(3.00)
Balance at December 31, 2020	**3,400**	**3.00**
Granted (1)	**1,087**	**4.08**
Balance at March 31, 2021	**4,487**	**$ 3.26**

(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:

	Three months ended March 31	
	2021	2020
Risk free interest rate	**0.7%**	-
Expected life (years)	**3.9**	-
Expected volatility	**65.7%**	-
Expected dividend yield	**0.0%**	-
Expected forfeiture rate	**0.9%**	-
Average fair value of options granted during the period ($/share)	**$ 1.98**	-

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

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

Exercise price ($/share)	Number of options outstanding (000s)	Weighted average remaining term (years)	Weighted average exercise price for options outstanding ($/share)	Number of options exercisable (000s)	Weighted average exercise price for options exercisable ($/share)
$2.92 to $3.50	3,400	4.2	$ 3.00	-	-
$3.51 to $4.08	1,087	4.9	$ 4.08	-	-
Total	**4,487**	**4.4**	**$ 3.26**	**-**	**-**

The volume weighted average trading price of the Company's common shares on the TSXV for the quarter ended March 31, 2021 was $3.94.

e) Share awards

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

The following table summarizes the change in share awards outstanding:

	Number of PSAs (000s)	Number of RSAs (000s)
Balance at December 31, 2019 and December 31, 2020	**-**	**-**
Granted	**-**	**1,722**
Balance at March 31, 2021	**-**	**1,722**

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

f) Per share amounts

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

	Three months ended March 31	
(CA$ thousands, except per share amounts)	**2021**	2020
WA common shares outstanding, basic	**68,293**	26,106
Dilutive effect of stock options	**224**	-
Dilutive effect of share awards	**59**	-
Dilutive effect of warrants	**12,001**	-
Dilutive effect of Convertible Note (note 11) (3)	**1,014**	-
WA common shares outstanding, diluted (1)(2)	**81,591**	26,106
Net income (loss)	**59,164**	(4,820)
$ per common share, basic	**0.87**	(0.18)
$ per common share, diluted (1)(2)(3)	**0.73**	(0.18)

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

(2) During the comparative quarter ended March 31, 2020, the impact of outstanding warrants was antidilutive and excluded from the calculation of the diluted net loss per share.

(3) The Convertible Note was issued in connection with the Inception Acquisition on March 18, 2021. The maximum number of potentially issuable common shares of 6.5 million is prorated for the 14 day period that the instrument was outstanding during the quarter.

13. INCOME TAXES

As at March 31, 2021, total tax pools available to the Company are estimated to be approximately $637.0 million (December 31, 2020 – $117.5 million), of which approximately 56% are non-capital losses ("NCLs"). During the quarter ended March 31, 2021, Spartan closed acquisitions which materially increased the Company's tax pools (note 5).

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

(*CA$ thousands*)	Balance Dec 31, 2020	Recognized in net income	Recognized in balance sheet	**Balance March 31, 2021**
Derivative financial instruments	721	400	-	**1,121**
Accelerated tax basis depreciation	(36,223)	(2,311)	225	**(38,309)**
Decommissioning obligations	22,560	2,166	5,099	**29,825**
Leases	576	28	-	**604**
Convertible promissory note	-	105	(5,683)	**(5,578)**
Share issue costs (1)	395	(73)	1,021	**1,343**
Non-capital losses and other (2)	3,220	(6,148)	84,389	**81,461**
Unrecognized deferred tax asset	-	6,179	(41,812)	**(35,633)**
Deferred tax asset (liability)	(8,751)	346	43,239	**34,834**

(1) Approximately $0.9 million of deferred income taxes were charged directly to equity in respect of $4.1 million of share issue costs incurred.

(2) NCLs expire in years 2035 to 2040.

The Company had an unrecognized deferred tax asset of $41.8 million upon initial recognition of the January 2021 Acquisition (note 5), to which the Company subsequently recognized $6.2 million during the first quarter. At March 31, 2021, the remaining unrecognized deferred tax asset was $35.6 million.

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 (Loss) and Comprehensive Income (Loss):

	Three months ended March 31	
(CA$ thousands)	**2021**	2020
Net income (loss) before income taxes	**58,818**	(4,820)
Canadian statutory tax rate	**23.0%**	25.0%
Expected income tax expense (recovery)	**13,528**	(1,205)
Increase (decrease) resulting from:		
Non-deductible expenses [(1)]	**386**	-
Gain on acquisition	**(8,081)**	-
Change in tax rates	**-**	97
Change in unrecognized deferred tax asset	**(6,179)**	1,108
Deferred income tax recovery	**(346)**	-
Current income tax	**-**	-
Income tax recovery	**(346)**	-

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

The Canadian statutory tax rate per the rate reconciliation above represents the average combined federal and provincial corporate tax rate. Spartan's combined federal and provincial statutory tax rate was 23.0% during the quarter ended March 31, 2021, compared to 25.0% in the previous quarter ended March 31, 2020. The federal corporate tax rate is unchanged at 15% throughout 2020 and 2021. On October 20, 2020, new legislation enacted under Alberta's Recovery Plan which reduced the general corporate rate from 10% to 8% effective July 1, 2020, resulting in an average tax rate of 24.0% for the year ended December 31, 2020.

14. OIL AND GAS SALES, NET OF ROYALTIES

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

	Three months ended March 31	
(CA$ thousands)	**2021**	2020
Oil and gas sales		
Crude oil	**3,612**	103
Natural gas liquids	**26,838**	63
Natural gas	**38,833**	207
Oil and gas sales	**69,283**	373
Royalties	**(8,717)**	(1)
Oil and gas sales, net of royalties	**60,566**	372

15. 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 (Loss) and Comprehensive Income (Loss):

	Three months ended March 31	
(CA$ thousands)	**2021**	2020
Interest and fees on bank debt	**357**	-
Financing cost of lease liabilities	**716**	-
Accretion of decommissioning obligations	**324**	31
Financing expenses	**1,397**	31
Interest income	**(1)**	(79)
Financing	**1,396**	(48)

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31	
(CA$ thousands)	**2021**	2020
Accounts receivable	**(14,049)**	(65)
Prepaid expenses and deposits	**(1,196)**	(116)
Accounts payable and accrued liabilities	**11,590**	1,250
Non-cash working capital acquired (note 5)	**(3,969)**	-
Change in non-cash working capital	**(7,624)**	1,069
Relating to:		
Operating activities	**(4,222)**	961
Financing activities	**250**	-
Investing activities	**(3,652)**	108
Change in non-cash working capital	**(7,624)**	1,069

(1) During the first quarter of 2021, Spartan made cash payments of approximately $0.3 million is respect of interest and standby fees on bank debt (March 31, 2020 – nil). Cash payments in respect of income taxes were nil during the current and prior period.

17. CAPITAL MANAGEMENT

Spartan's capital management objectives are to maintain a flexible capital structure in order to meet its financial obligations, execute on strategic opportunities throughout the business cycle and respond to changes in economic conditions. As at March 31, 2021, the Company's capital structure is comprised of working capital, bank debt, a convertible promissory note, and shareholders' equity. The Company's existing capital resources are sufficient to satisfy its financial obligations for the next twelve months.

The significant components of the Company's capital structure are summarized below:

(CA$ thousands)	**March 31, 2021**	December 31, 2020
Bank debt	**-**	-
Adjusted Working Capital deficit (surplus) (2)	**(98,303)**	12,292
Net Debt (Surplus) (1)	**(98,303)**	12,292
Convertible promissory note	**25,749**	-
Total shareholders' equity	**414,230**	137,540

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

(2) "Adjusted Working Capital" is calculated as current assets less current liabilities, excluding derivative financial instruments, lease liabilities, and the deferred premium on flow-through shares. As at March 31, 2021 and December 31, 2020, Adjusted Working Capital includes cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and the current portion of decommissioning obligations.

The Company's primary sources of funds are cash provided by operating activities and the Credit Facility which has an authorized borrowing amount of $100 million. In addition, Spartan raised net proceeds of $119.9 million from equity financings during the first quarter of 2021 (note 12).

During the three months ended March 31, 2021, Spartan generated cash provided by operating activities of $32.1 million which was used to fund the Company's exploration and development capital expenditures of $19.3 million, lease payments of $2.4 million, and the cash purchase price for the Willesden Green Acquisition of $5.2 million. Total consideration for the Acquisitions completed during the first quarter of 2021 was $151.2 million in aggregate, comprised of $20.1 million of cash consideration, $105.8 million of common share consideration, and the issuance of a convertible promissory note with a fair value of $25.3 million on the acquisition date. Spartan temporarily advanced $15.0 million on the Credit Facility to fund the cash purchase price for the Simonette Acquisition on March 18, 2021, which was subsequently repaid using proceeds from the equity financings.

As at March 31, 2021, Spartan had $109.6 million of cash on hand and no bank debt outstanding. The Company is well positioned to execute on its strategic growth plans. Future exploration and development capital expenditures are expected to be funded primarily by cash provided by operating activities during 2021. Future acquisitions, which are part of Spartan's growth strategy, are expected to be funded through a combination of cash on hand, cash provided by operating activities and bank debt, and may be supplemented by new equity or debt offerings.

As at March 31, 2021, the Company is not subject to any externally imposed capital requirements.

18. COMMITMENTS AND CONTINGENCIES

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

(CA$ thousands)	Less than 1 year	1 to 5 years	More than 5 years	Total
Firm transportation	9,476	31,476	11,749	52,701
Qualifying Expenditures	54,005	-	-	54,005

Spartan has firm transportation commitments on natural gas pipelines in Alberta until October 2029. As part of the Simonette Acquisition and the Inception Acquisition the Company acquired certain transportation arrangements which are included in the above firm transportation commitments. Transportation commitments acquired in the first quarter of 2021 were approximately $22.9 million and are in place until October 2029. Additionally, during the quarter the company entered into new firm transportation commitments of approximately $20.7 million which are in place until March 2029.

In connection with the Flow-Through Private Placement completed on March 18, 2021 (note 12), the Company is obligated to incur and renounce Qualifying Expenditures in the aggregate amount of $54.0 million, of which $6.5 million must be incurred prior to October 31, 2021, and the remaining commitment of $47.5 million must be incurred prior to December 31, 2021.

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

Litigation

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

19. RELATED PARTY DISCLOSURES

a) Inter-corporate relationships

During the previous year ended December 31, 2020, Spartan had one wholly owned subsidiary, Winslow Resources Inc. Balances and transactions between Spartan and Winslow were eliminated on consolidation. Effective January 1, 2021, Spartan and Winslow were vertically amalgamated to form a single corporate entity under the name of "Spartan Delta Corp."

As at March 31, 2021, Spartan owns 100% of Inception GP, which was previously a wholly owned subsidiary of Inception. Inception GP continues to operate as a separate legal entity and is the general partner of three limited partnerships, to each of which it holds a 0.01% interest. Balances and transactions between Spartan and Inception GP have been eliminated on consolidation and are not material to the Company.

b) Related party transactions

During the three months ended March 31, 2021, the Company incurred $1.0 million of legal fees to a law firm where the corporate secretary of the Company is a partner (2020 – $0.3 million). The fees are primarily transaction costs related to the Acquisitions and share issue costs incurred in respect of the equity financings completed during the first quarter of 2021. Approximately $0.9 million of legal fees are included in the balance of accounts payable and accrued liabilities as at March 31, 2021.

ARETI Energy S.A.

Upon closing of the Inception Acquisition (note 5), the number of common shares owned or controlled by ARETI represented approximately 20.8% of the total number of Spartan common shares issued and outstanding on a non-diluted basis. As part of the pre-acquisition agreement between Inception and Spartan, the Company entered into a nomination rights agreement providing ARETI with the right to nominate one or two directors to Spartan's board of directors, subject to acquiring and maintaining certain minimum shareholding requirements. Steve Lowden and Elliot Weissbluth were appointed to Spartan's board of directors concurrent with closing of the Inception Acquisition on March 18, 2021.

ARETI is the Noteholder of the convertible promissory note issued as part of the Inception Acquisition. The carrying amount of the Convertible Note is $25.7 million as at March 31, 2021 (note 11).

20. SUBSEQUENT EVENT

On May 10, 2021, Spartan executed a definitive agreement with Canoe Point Energy Ltd. ("Canoe") pursuant to which the Company will acquire all of the issued and outstanding shares of Canoe (the "Canoe Shares"). Canoe is a private company holding undeveloped land in Spartan's Montney focus area of northwest Alberta. The total purchase price is approximately $1.49 million which will be satisfied through the issuance of 306,271 common shares of Spartan and the assumption of net debt estimated to be $0.06 million (the "Canoe Acquisition"). The Canoe Acquisition is expected to close on or about May 21, 2021, subject to certain regulatory and other approvals, including the approval of the TSXV and the satisfaction or waiver of customary closing conditions.

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